SELECT COMMITTEE ON PENSIONS

REVIEW

TUESDAY, JANUARY 5, 1982

SELECT COMMITTEE ON PENSIONS

CHAIRMAN: Taylor, J. A. (Prince Edward-Lennox PC)
Brandt, A. S. (Sarnia PC)
Cousens, D. (York Centre PC)
Cureatz, S. L.; Deputy Speaker (Durham East PC)
Gillies, P. A. (Brantford PC)
Haggerty, R. (Erie L)
Jones, T. (Mississauga North PC)
Mackenzie, R. W. (Hamilton East NDP)
McClellan, R. A. (Bellwoods NDP)
Riddell, J. K. (Huron-Middlesex L)
Van Horne, R. G. (London North L)

Clerk: White, G.

Researcher: O'Mara, J., Legislative Research Service

Consultant:
Bentley, W., Public Trustee

LEGISLATURE OF ONTARIO

SELECT COMMITTEE ON PENSIONS

Tuesday, January 5, 1982

The committee met at 10:10 a.m. in room No. 151.

REVIEW

Mr. Chairman: Gentlemen. I say that because, as you know, there are no women on this committee--as John Williams says, unfortunately. However, we do have some delightful people from the Hansard office and other places who profess to that gender.

We had expected to have Mr. Wells Bentley here this morning to start us off with a more in-depth approach to the Canada pension plan. Unfortunately, he has called in to say he is incapacitated today, not a carryover from the New Year's celebration, but apparently genuinely ill. He is hopeful he will be sufficiently recovered to join us tomorrow.

In the meantime, we have some substitutions. In jest I referred to the gender of the committee. Rick Jennings, who has left us to join the Ministry of Energy, has gone on to greater things. Following in his footsteps we have Dr. James O'Mara from the library service here whom I would like to introduce to the committee.

At my suggestion, Dr. O'Mara has been good enough to put together a small paper, which has now been distributed, and you will see the items outstanding. I thought we might review that document so that we can determine the issues, our approach and our scheduling, in order to complete our task, I hope, by next month. If that is too optimistic, then I am sure you will let us know. I think, generally speaking, the time has come for action and if we are sufficiently prepared to act, then I think we should do so. I would like to see the final report tabled in the Legislature when it resumes in March.

Mr. Williams: Mr. Chairman, just before you proceed further with Dr. O'Mara's summary, is there any update on the status of the exhibits that were outstanding from last session? I know there were a number of exhibits that were yet to be made available to us--from exhibit 105 on, Graham, as I recall.

Mr. Chairman: There is a fresh volume four--

Mr. Williams: I see some of them are in the booklet. I am not sure they are all here.

Mr. Chairman: You should have volume four in front of you with the exhibits in there. If there are any deficiencies, if you would be good enough to point them out, we will see that--

Mr. Williams: I see there is an updated summary of the library exhibits coming forward. What about the tentative deputations that will be coming before the committee, Mr. Chairman?

Could we have an update on them? Is this list as current now as it was when it was distributed to us just before the Christmas recess?

Mr. Chairman: I think there has been some updating of that agenda. You should have the firm agenda in front of you. You will notice--

Mr. Williams: These dates and times have been confirmed with all these parties so that--

Mr. Chairman: On Tuesday, January 12, we start with delegations. We are hearing two in the morning and two in the afternoon. We should be able to complete those in January.

Mr. Williams: Mr. Chairman, there were one or two occasions last session when I think the written briefs in support of the deputations were made available to us only that day. It is difficult to try to read through the briefs as we are listening to them. I presume every effort is being made to get the briefs in at least a day or two ahead of the actual hearing date.

Mr. Chairman: We are trying to. As you know, we have been somewhat impatient as a committee to complete our task, so we have not given an awful lot of time to prepare to the persons who have indicated an anxiety to appear. That is probably more appropriate to those we met last year. Those we will be meeting with this month have now had an opportunity to prepare themselves much better. I am sure briefs in written form will be distributed to the members in advance.

Mr. Williams: There are still quite a few to come, according to the agenda.

Mr. Chairman: Yes. The clerk tells me he is doing everything he can to encourage the delegations to submit briefs sufficiently well in advance so that we can have copies made and distributed to the members.

10:20 a.m.

Were there any other questions before I get on to a letter I want to read to you? I have mentioned the Canada pension plan. I received a letter dated December 22--it came in yesterday--but that is not an indictment of Canada Post. It is from the office of the Minister of National Health and Welfare. I may say I had asked the clerk to contact Ottawa. I had written a letter to the minister, Monique Bégin, to see if she or her officials would be prepared to meet with us in view of what I perceive to be a benevolent feeling of that minister towards some upgrading or enrichment of the Canada pension plan. That is my perception of what I read--

Mr. McClellan: That is what you keep saying.

Mr. Chairman: That is something you may have perceived as well.

A lot of work has been done on studies and technical reports and so on. I expect if one were to enrich the Canada pension plan,

one would have to consider a number of ramifications. Cost is one, not just cost to the employee and the employer but what the impact of that might be on the economy and whatever the spinoff might be. I thought the committee might be interested in engaging the federal people in some dialogue in regard to their proposals, because I am sure if there have been utterances of support for an enriched Canada pension plan, there must have been a great deal of thinking. It might be helpful to this committee in dealing with its position in regard to that particular plan.

As I indicated, I have a response dated December 22. If I may, I will read it to you now. It says:

"Dear Mr. Taylor: On behalf of the Honourable Monique Bégin, this is an interim reply to your letter of December 14, 1981, in which you invite her and officials of her department to appear before the select committee on pensions in January."

May I just explain the letter I wrote--I think you should probably have a copy of it, if the clerk will be good enough to distribute it--put it both ways, that while we are not a travelling committee, we would be prepared to go to Ottawa if it were more convenient for them. So that is the reference.

The letter continues: "I have since spoken by telephone to the clerk of your committee, Mr. Graham White, and he has spoken also to Mr. D. M. Lyngseth, assistant deputy minister, income security programs, National Health and Welfare. We explained to Mr. White that it was very unlikely that the minister would be able to attend a meeting of your committee.

"As for departmental officials, Mr. Lyngseth explained to Mr. White that the department would want to be of assistance, if there were matters on which federal officials could bring additional information forward that would be of use to the committee. However, federal officials would be confined in any responses to matters of a factual or technical nature, and could not comment on possible policy developments within the government of Canada.

"In view of the substantial factual background on the Canada pension plan which has no doubt already been given to the committee, there was some question about the extent to which federal officials could add to the evidence before the committee.

"There was a question, also, concerning the specific areas of inquiry that the committee might want to look into, since this would affect the choice of the officials who might provide the most useful input. For example, if the committee's questions were primarily related to the financial management of the Canada pension plan fund, the officials from the Department of Finance rather than from this department might be more appropriate.

"Also, depending on the information sought, it might prove more efficient to furnish certain information in writing rather than through an appearance at the committee.

"I understand that Mr. White intends to see if the committee's requirement can be defined more specifically. He and

Mr. Lyngseth intend to communicate again early in January to consider the nature and extent of any participation by federal officials.

"Yours truly, Ed Tamagno, special adviser, income security."

You will note that this letter is only an interim reply and maybe they are looking for some further guidance before they draft the final reply. I invite members of the committee at this time to express their thoughts in regard to those areas that you feel are important to pursue in regard to the Canada pension plan when we talk in terms of, say, doubling the benefits under that plan.

Also, I again want to point out that the letter I wrote and the communication from the clerk has not been one of mandating the federal government to appear before this committee. I can assure you we were most diplomatic in offering a very flexible potential in terms of whether the committee went to Ottawa or whether they have someone who might want to attend this committee.

Mr. Williams: I presume the letter was addressed to the minister, Mr. Chairman.

Mr. Chairman: Yes.

Mr. Williams: And I presume that a letter in response would be forthcoming directly from her in due course.

Mr. Chairman: I wouldn't want to anticipate that. I am not sure how the minister responds to correspondence.

Mr. Williams: If, in fact, she was not able to attend before the committee as suggested in the letter, by reason of prior commitments or for whatever reason, I am wondering whether--

Mr. Chairman: Or, Mr. Williams, the committee attending before her.

Mr. Williams: Yes. If in either case she was not personally available, have any overtures been made suggesting that her deputy might be available? It seems to me if we start moving much further down the line, there would be no likelihood of getting any type of response other than, as suggested in the letter, of a solely factual or technical response, which may not be of too great assistance to us in developing our thinking as a committee relative to the role that CPP is going to play in our ongoing deliberations.

Mr. Chairman: I think you have to distinguish between the political level and the staff level--

Mr. Williams: That is exactly what I am trying to do.

Mr. Chairman: --and I don't think the deputy minister will ever be a substitute for the minister in that regard, so that when you are suggesting the deputy instead of the minister I think you are off now into the train that--

Mr. Williams: Even there I realize we would be very

limited in eliciting any policy comment, but at least if there is anyone who could speak on her behalf, I presume that person would be the most qualified to do so and would be able to discuss policy to some extent possibly.

10:30 a.m.

Mr. Chairman: What areas, Mr. Williams, would you suggest you would want to pursue, first, from the political end and, second, from the technical end?

Mr. Williams: I guess all of us would be interested in having greater elaboration on some of the directions in which the minister has indicated she wants to move the plan, based on recent speeches she has made around the country. It seems to me we are sort of seeing the tip of the iceberg as far as what the intentions and direction of the federal authorities in this area are, and I think it would be of assistance to the committee if we were able to explore that in greater depth with her.

I think we should be endeavouring to work along the same line rather than in contradiction one to the other if it is possible to achieve that objective, and sharing of information is the first step towards trying to arrive at common goals while having different responsibilities.

Mr. Chairman: Just to clarify the mood, I hope and believe that there is not any feeling of discord vis-à-vis the province and the federal government, that it is in a co-operative spirit we are dealing with them, because I think our concerns surely should be their concerns and vice versa. I am looking forward to the utmost co-operation, and I do not get any feeling of an adversarial relationship.

Mr. Williams: I do not think there is that, although there is a recognized difference in approach based on statements that have been made both by her and by our own Treasurer (Mr. F. S. Miller) as to the approach in achieving the same end objectives. I think they see their responsibilities in a different light, I gather in an expansionist attitude, relative to the CPP, whereas our Treasurer and others at the provincial level have indicated there might be other alternatives that can be pursued paralleling the CPP program. It is in that area that we see differences that do not necessarily mean a confrontation or a discord but rather a melding of views that hopefully will bring us to the same end objectives.

Mr. Gillies: Mr. Chairman, I am very cognizant of the comments that you and Mr. Williams have already made, but I would have to say I am very disappointed in the federal government's reply to this point because it indicates Madame Bégin would not at this point be able to entertain the idea of meeting with us--which is fair; I am sure the minister is very busy--but the letter goes on to say, "Federal officials would be confined in any responses to matters of a factual or technical nature."

I think you, Mr. Chairman, have touched on the problem that poses for us in that we as a committee have been given the mandate

to recommend to our government some policy directions that we might want to take in the field of pensions, and in order to properly fulfil that mandate we obviously need to know or at least have a pretty good indication of what policy directions the federal government is entertaining. While I do not want to see us in any way come into a confrontation situation with the federal government, it is not making our task any easier by saying it cannot share some of its possible policy directions with us.

I might just throw out as an example the worst-case scenario. Suppose this committee decided to recommend a universal retirement scheme on the PURS concept and the federal government in short order then did announce some enrichment of the Canada pension plan. The two governments, in that eventuality, would have policies that come into conflict, and I would hope we as a committee could indicate to the federal minister that that is the kind of confrontation that could be avoided by the sharing of ideas now.

Our own very excellent research staff can, in co-operation with federal officials, get the information we require of a technical or factual nature. I do not think that is the most important type of information that we are seeking in requesting that Madame Bégin meet with us.

Mr. Cureatz: Mr. Chairman, Mr. Gillies expressed in general terms concerns that I was going to relate, but mine I think start at more basic levels and I would be curious to hear thoughts from other members of the committee. It would appear from the letter you have received that the committee will be, certainly on the short term if not forever, frustrated in terms of trying to get a handle as to the policy of the federal government on investigating the CPP.

In that light, is there value in the committee doing extensive research, hearings et cetera, on CPP without having the benefit of any kind of input from the federal government? Are we going to be wasting our time, outside of ourselves individually gaining knowledge, in making some kind of recommendation which will be put to no use whatsoever by our government because we have not had the benefit or value of what the federal position will be? I am concerned. I would like to hear other members' views as to whether they think it is going to be worth while doing great research in this area when we at first blush appear not able to have any kind of input as to the direction of the federal government?

Mr. Chairman: Mr. Cureatz, I believe we have a mandate to do something, so it is not a question of whether we feel we should or should not. I think we have a duty to review this aspect of the pension system and to come forward with some concrete recommendations.

In terms of federal-provincial relations, I think you have to be mindful of the fact that Ontario has a veto in terms of amendments to the Canada pension plan; that certainly has been my understanding of it. As you know, Quebec has its own pension plan. In view of the strong Ontario position, I would think Ottawa would be interested indeed in the political sense of this province in terms of recommending changes at this particular time. I would

think the political arm of Ottawa would be interested in entertaining the political thought of Ontario in regard to future directions concerning change in the Canada pension plan.

The letter I have received, I again point out, is an interim reply and it is at the assistant deputy minister level as opposed to the political level. So I do not look at that as something that should discourage us in terms of having some dialogue with the executive and political people in Ottawa. I think Mr. MacEachen, the Minister of Finance, would also be a very interesting person to talk with because I am sure he has some very real problems in terms of the economy of the country and the affordability of any changes in the plan and what the impact of those changes might be, what the spinoff might be in terms of the overall economy.

Mr. Cureatz: Mr. Chairman, your position basically, which I will soon acknowledge, is that notwithstanding any kind of input at the federal level, the committee should forge ahead with its mandate and I will feel comfortable with that, though at times it seems frustrating that committees are struck and we are spinning our wheels. In this particular area we may not have much of an impact, but certainly if that is your feeling and the feeling of other members--

Mr. Chairman: Don't despair, Mr. Cureatz. You must be eternally optimistic.

10:40 a.m.

Mr. Mackenzie: As I understand the interim reply, not only does Monique Bégin apparently not desire at this point to meet with us but she questions the usefulness of any her staff meeting with us. Our mandate is to deal now with the broader issue of pensions. I think there is more than a perception that they are not adequate in this province and this country and it seems to me we should be following up on a request at a policy level discussion that somebody from Monique Bégin's office should meet with this committee.

I think it's fair to say she has either to put up or shut up. She is one of the people who have been going around the province saying very clearly that pensions are not adequate. The options we are faced with are some kind of an enrichment of OAS and CPP or the PURS proposal that we had presented to us, which means we could end up in some kind of conflict between the province and the federal people.

I just think we should go back to her at the ministerial level and request a session. I don't want either side, the province or the feds, to be able to use the argument that they can't get together. One group doesn't like the PURS program and the other people are going around the province saying we need some kind of an enrichment but won't talk about it. I think it is a legitimate request that we have a discussion with them on this issue.

Mr. Chairman: Mr. Mackenzie, on occasion I have thought your remarks extravagant but I think they may be appropriate in this case. The perception certainly is that something should be

done and that perception is flowing from Ottawa. The letter doesn't say that the federal people are in the process of preparing a white paper--

Mr. Haggerty: Mr. Chairman, on a point of order, we are discussing a letter that you have written to the federal minister responsible for CPP and her reply. Is there any reason for not having copies of both of those letters provided to the committee members so we can digest them?

Mr. Chairman: It has just been photostated and is in the process of being distributed, Mr. Haggerty.

There is that perception that something should be done and there is no reference to a white paper being prepared at the federal level. I again hear that there is some activity in that direction and it may be that the federal people want to put together that white paper. I say that in fairness to them before advocating any position.

Mr. Williams: Mr. Chairman, I think the feeling of the committee is that while we have an interim reply from one of her staff, a final reply is necessary within a matter of days, not weeks. Realistically, if we are going to have any participation by the minister, she should indicate her willingness to meet with us here or on her grounds within the next week, if we are going to have any likelihood of fitting it in within our tight time frame.

It seems to me that even to fire off another letter may not get as quick a response as we would like. I would suggest that perhaps a telegram should be sent to her directly asking for an immediate response, given the short time period we have to finalize our agenda and complete our deliberations on this matter before the next session of the Legislature. Either she tells us she will or will not meet with us. A simple yes or no is what we need at this point and I think it should be done forthwith.

Mr. Gillies: I wonder, Mr. Chairman, whether you, as chairman, in recontacting the federal minister would like to be armed with a motion from the committee, which I would be quite prepared to move, that this committee urge the federal minister to meet or have senior officials able to meet with this committee to partake in policy discussions in the area of pensions. I think we should indicate, as a committee, that we feel this is the direction we have to go in.

Mr. Jones: I have a point of inquiry following on what Mr. Gillies and others have touched on. First, your correspondence to the federal minister has, I take it, been more along the lines of meetings. I guess most of us are aware, as we take our busman's holiday sometimes in the evenings to watch the House of Commons, that there has been a lot of discussion the minister has taken part in.

Mr. Mackenzie talks about the federal minister travelling in the province. She has also been farther afield--the United Nations and other places--talking about some of the reforms. I noticed as I was looking at one of the recent Commons sessions, during the

question period, that Mr. Rae was putting questions to her and she was giving the answers specifically. I am sure we could look them up through Hansard.

She is about to bring down a green paper. She has referred to it in recent question periods.

Mr. Chairman: I am sorry if I used the wrong colour.

Mr. Jones: I am sure they are the same thing.

I wonder if we couldn't be specific in this request we are talking about, if it takes a resolution to do that. She has referred to early 1982 when the green paper is coming down. Certainly she has discussed an immediate response to some of the first problem areas of existing elderly that we concerned ourselves with where we know it is both the GIS and the Gains proposition. In the Commons she has said that would be in early 1982. This is early 1982 and I wonder if we could embody a specific request in our letter to her.

Mr. Chairman: I am wondering, Mr. Jones, if we could hear from Mr. White, who has been personally in touch with some people in Ottawa. Could you respond?

Clerk of the Committee: I have some of those Hansards. Mr. Chairman, in speaking to Mr. Lyngseth, we discussed the matter of the timing of the policy paper. He indicated that the earliest conceivable time would be the beginning or middle of February and that there was somewhere between a possibility and a good likelihood that it would be substantially delayed, perhaps for as many as several months. But the earliest conceivable, which he did not hold out much hope for, would be the beginning to the middle of February.

Mr. Jones: So we have to get on with our job. We have to outline what remains for us to review in the report. If that is the kind of indication you are getting, combined with this letter, we had better not be holding all of this until we get some indication from them, because we should get on with making our next report.

Mr. Chairman: Realistically, it was my impression that our House would be sitting before the green paper, if it is green now, came down. If we are going to wait for that, if we think that is crucial to the committee's deliberations and recommendations, then we would have to postpone our date for reporting until later in the year. I question whether that is necessary.

Surely there must be considerable thought given to this whole business at the political level in Ottawa, especially in view of the utterances that have been made and the fact that the interim reply to my letter indicates an awful lot of work has already been done on the subject. We could have an in-camera meeting, for example, at the political level if they felt it was too sensitive or they did not want to broadcast their views at this particular time, but there has not been any suggestion of that.

Mr. Jones: I think Mr. White has answered my question. We

can't really expect to see a green or white paper or anything for the next several months, so we had better proceed with--

10:50 a.m.

Mr. Williams: Mr. Chairman, I think the thrust of Mr. Gillies's suggested motion is something we, as the committee, should agree to pursue or otherwise. There are two essential ingredients: either the minister is willing to make the time available to meet with us--and if so for the express purpose of discussing policy as contrasted with simply existing programs within the CPP, which technical and factual information, as has been said by others, is readily available to us with their co-operation. But we want to delve into policy and that is the only way in which we are going to be assisted in our deliberations.

I suggest we proceed along those lines if we are all agreed. I would suggest it should perhaps be done by telegram to get a response this week, rather than send a letter, given the state of the Canada Post at this time; we might want to go that route to get a relatively immediate response.

Mr. Chairman: If it is agreeable with the committee, then we will follow it up. I think probably the telephone might be the best initial approach.

Mr. Williams: It would be nice to have something on record.

Mr. Cureatz: Would you like a motion, Mr. Chairman?

Mr. Chairman: I don't think that is necessary. I surmise there is a feeling on the part of this committee that it is anxious to meet with some people in Ottawa, especially at the political level. Is that so?

Mr. Williams: To discuss policy.

Mr. Jones: We shouldn't be waiting for that.

Mr. Chairman: No, we don't wait for things to happen; we make them happen, don't we, gentlemen?

Is there any particular technical area you wanted to pursue in response to that letter before we get on to the next matter? If you haven't any further thoughts on that, then--

Mr. McClellan: The one obvious thing that occurs to me is that if the federal government is on the verge of issuing a green paper, it probably has done a fair bit in the way of background studies both on the adequacy of private pension coverage and the adequacy of existing pension arrangements overall--in other words, the relative wellbeing of seniors in Canada. I assume they are sitting on the data, which is even more current than the royal commission data, and they may have some additional material which we seem to have had some difficulty getting with respect to the adequacy of coverage--the whole coverage issue. If it is possible to try to get whatever background material the federal income

security people have prepared, that would probably be helpful.

Again, the tone of that letter is sufficiently curt in dismissing it. I don't expect to get very much by way of co-operation unless we can change their attitude.

Mr. Chairman: Okay, then we will aggressively pursue that and indicate the intense interest of the committee in meeting with Monique Bégin or alter egos--

Mr. Mackenzie: I take it in good faith that you don't have a vested interest in Monique not meeting with us, Mr. McClellan.

Mr. Chairman: Let the record show "laughter."

We have Dr. James O'Mara, who is a research officer with the legislative research service, and who has put together this document that you have in front of you. I will ask Dr. O'Mara if he would like to review that with the committee.

Dr. O'Mara: The report is divided into three sections. The first deals with the recommendations of the interim report, the second notes those recommendations deferred in the interim report, and the third deals with those matters not directly referred to in the interim report.

The first section notes that in the area of government retirement income programs, recommendations 20 and 21 were endorsed with a minority report on 21.

On the subject of the Canada pension plan, recommendation 24 was accepted by the committee.

On the subject of employment pension plans, recommendations 43 and 44 of the Royal Commission on the Status of Pensions in Ontario were endorsed. Recommendation 42 was considered. Recommendations 45 and 47 through 51 were agreed to but additional study was required. Recommendation 54 was endorsed. Recommendation 68 was endorsed and 83 was endorsed, with some distinctions. Recommendation 93 was endorsed in part.

The last area considered was other issues, and the recommendation under this, number 136, the excess interest approach, was considered. Recommendations 157 through 161 and recommendation 163 were endorsed by the committee.

Matters specifically deferred in the interim report include those related to government retirement income programs, questions related to demonstrated need for universal coverage. The committee deferred consideration as it exhausted its study of CPP. Under the subject of employment pension plans, the committee deferred comment on the provincial universal retirement system, withheld its conclusions on the severity of coverage problems and recommendations for actions. It is still studying the feasibility of legislating portability.

A decision with regard to a central pension agency was

deferred. The committee reserved the possibility of further considering amendments to the Pension Benefits Act and deferred recommendations with regard to part-time workers. On Ontario public sector plans, the committee noted it has not yet completed its deliberations.

The final part of the report lists those items by recommendation number not directly referred to in the interim report. I have a list there for the committee members of those items and the general categories of information that the recommendations deal with.

11 a.m.

Mr. Chairman: Did you want to review those items not directly referred to in the report? They are listed here, unless you wanted some discussion in connection with them. Maybe we should review the list because we are going to have to come up with recommendations. What do you wish, gentlemen? Did you want Dr. O'Mara to deal in depth with any of these?

Mr. Riddell: I thought that the recommendations of portability and vesting were referred to in the interim report. Did we not deal with earlier vesting, five-year vesting?

Mr. Chairman: Yes, we did.

Mr. Riddell: Did we not deal with portability?

Mr. Chairman: Yes, we dealt with portability. I think what Dr. O'Mara is saying is the feasibility.

Dr. O'Mara: I am referring to the specific recommendations in this last list of the royal commission. I went through the interim report and checked it to see whether there were specific references to the substance of these particular recommendations or whether the report addressed these things exactly. The list that I prepared here is items not directly referred to in the interim report. Certainly the committee did cover these other issues but these specific recommendations--

Mr. Riddell: What you are saying is that the recommendations of the royal commission called for immediate vesting and we dealt with five-year vesting. You are saying that that is one of the recommendations that we did not directly refer to. Is that the point you are making?

Dr. O'Mara: I am just making the point that in the interim report these specific recommendations were not referred to.

Mr. Chairman: Any further comments?

Mr. Williams: What is concerning me and maybe other members of the committee too is that there is a raft of recommendations that we have barely touched on. Of course, a lot of them will fall into place once we have made the basic decision as to which way we are going vis-à-vis expansion of CPP or the PURS

program or private sector. A lot of them are dependent on that basic decision being made.

As I understand it, after we have heard from all the delegations we are really going to have only one week left to start sitting down and making these decisions. My concern is how we can put it all together in one week after that. I was looking at the agenda for deputations. I think it would be helpful to us if we could even cut into that last week of deputations and perhaps have one, if not two, days when we could get started on a decision-making process in committee.

I notice that on the last Thursday, January 28, we have delegations scheduled for the morning. On the preceding day, Wednesday, there is only one at the moment. I am wondering if we could consolidate them into the Wednesday session so we would have the Thursday free, if not the Thursday and Friday of that week, really to get started because in my mind it is going to be very difficult to grapple with all these recommendations in one week. My understanding is that we just have that first week of February to assess all the information coming from the presentations along with the basic information we are going to have from our briefings with Mr. Bentley through the balance of this week.

Mr. Chairman: If I could just comment on that, it is certainly not my wish to deal with any of these items in a hurried or cavalier fashion. However, I think the committee must remember that we do have Mondays through Fridays allocated for the committee so that we can sit on Mondays and Fridays if we find that additional time is necessary and we may have to extend the sitting time.

Mr. Williams: Would there be great difficulty in moving the deputations from that last week of January into the preceding week, and sitting on the Monday and Friday of that week? I know these are all fixed, according to what Mr. White has told us, but it seems to me there would be greater continuity if we could segregate the hearing weeks from our own in-committee work, rather than trying to do both in the same week. That is my feeling.

Maybe some people feel we can just as easily deal with the recommendations during weeks while we are hearing from the various delegations, but I feel we should have the benefit of all the input from all the delegations before us before we start drawing conclusions. I think it is unfair to those groups who are coming before us to know that we are already in the decision-making process before we have even heard from them. It seems it is a bit of an affront to them if they find that we are meeting on Mondays and Fridays to start making decisions, knowing they have yet to come before the committee. We should have all the hearings out of the way before we start formulating our decisions.

Mr. Chairman: I agree.

Mr. Riddell: This then would take us to January 28. Do we have to meet some deadline in February when this committee winds up its business?

Mr. Chairman: Yes, because of the other committees sitting.

Mr. Williams: The first week of February.

Mr. Chairman: We are confined basically to January and the first week of February. Mr. Williams, I appreciate what you are saying. When I mentioned we might sit Fridays or Mondays or both if necessary, it was in my mind that we did not want to anticipate what people might say or proceed without the benefit of their presentations. But, as you know, depending on the particular subject matter of the presentations, I am sure there are areas the committee could deal with which would not in any way prejudice the submissions. Of course, in connection with our interim report, we proceeded with that report notwithstanding that the people on our agenda here have not made submissions.

Mr. Williams: Would it be the feeling of the committee that it would be to our advantage if we could move the hearings for the last week of January forward, by fleshing out the preceding week, if not the preceding two weeks, with Monday and Friday deputations so that we would have at least two full weeks of intensive, in-committee deliberations on all these recommendations? There are just so many of them, I really feel we are not going to do the matter justice in one week's deliberations even if we meet from Monday to Friday of that one week.

Mr. Chairman: Realistically, I do not think we can expect more than two submissions in the morning and two submissions in the afternoon to give those people a fair opportunity to be heard.

Mr. Williams: At the moment they are shown only as Tuesdays, Wednesdays and Thursdays. If those hearings for Tuesday, Wednesday and Thursday of the last week of January were rescheduled for Monday and Friday of the preceding week to free up that last week of January, then we would have that week as well as the first week of February to assess all this input and start making recommendations. I just feel one week is not going to give us the time we need.

Mr. Riddell: Are there members of this committee who will be sitting on other committees after the first week in February?

Mr. Chairman: Yes, there are.

Mr. Riddell: It is a large building. We do have many committee rooms. I fail to see the reason that several committees cannot be sitting at one time. How many members on this committee are also sitting on other committees?

Mr. Chairman: Some of us are. I think the problem is the duplication of people as opposed to the physical accommodation.

Mr. Williams: That schedule was worked out with all the House leaders, was it not, Mr. Chairman? The committees all neatly fit together so they would not overlap.

Mr. Chairman: Mr. White can comment in terms of the last week, Mr. Williams. You are looking at the Tuesday, Wednesday and

Thursday. You want to see if those persons could be accommodated in the previous week?

Mr. Williams: I agree you cannot take more than two deputations in a half day, but at the moment there are enough openings there that we might be able to fit those six into the Monday and Friday of the preceding week.

Mr. Chairman: Without too much dislocation, Mr. White, I might suggest, if the committee members are agreeable, to take the Wednesday and Thursday and accommodate those three sessions on Monday, January 25.

11:10 a.m.

Mr. Williams: Either that or the preceding Friday in any event.

Mr. Chairman: Then we could sit through Wednesday, Thursday and Friday if necessary.

Mr. Williams: As I say, preferably if we could have that week free for ourselves, but if not, at least bring those deputations to the front part of that week so we would have at least part of that week for our own in-committee work, but preferably completely have the week available to us.

Mr. Chairman: As I say, the chair certainly wants to be as accommodating as possible to everyone. In another ecumenical year, I am anxious to co-operate in any way I can, so I will delegate that chore to the clerk to see if the Wednesday and Thursday can be consolidated and put into Monday of that week.

Mr. Brandt: On the correspondence of December 14, Mr. Chairman, is that a complete list of all the delegations that will be before us or are there others yet to be heard from that may still be slotted into some of those open spaces? Are there more than what we have on the total list?

Mr. Chairman: All we are aware of are on the list.

Mr. Brandt: So that's it, complete as of what we had from December 14?

Mr. Chairman: Yes. I think we will have to have a cutoff at some point. We just wanted to make sure that anyone who wished to respond to the recommendations of the royal commission had that opportunity, especially those persons who made submissions to the royal commission. I think we have accommodated them and this would seem to me to exhaust the delegations.

Mr. Williams: Mr. Chairman, could I be a little more persistent and suggest that we try to put those deputations for that week into the preceding week so that we would have a full two weeks available to us. I recognize that if we sit Fridays, we would only want to sit in the morning so that out-of-town members could get away. So we are really speaking only about a half day there in any event. If we met five days a week in the last two weeks of

January and the first week of February, I think we could fit all the deputations into the first three weeks of January and leave us with the last week and the first week of February to develop our report. Mr. White, could you indicate whether that could be achieved?

Mr. White: Following the chairman's lead, I want to be as accommodating as possible to the members as well. Whatever I am instructed to do, I will do. The only caveat I would enter would be that a number of the groups listed in the last week, particularly the chartered accountants and the social planning council, have a number of delegates they would wish to bring forward. It is not simply a question of rescheduling one person's timetable. What I am saying in short is that it will be difficult. I will try to report back. I foresee it would be much simpler to bunch up this last week into the Monday and Tuesday than push them forward into a Friday, but I will see what is possible.

Mr. Williams: Try to get the Wednesday and Thursday into the Monday then we will have at least Wednesday, Thursday and maybe Friday morning to start our in-committee work. Would that be agreeable to all the members?

Mr. McClellan: Say that again?

Mr. Williams: I say try to bring the Wednesday and Thursday deputations in on Monday, bring them forward to Monday of that week, and then get on with our in-committee work on Wednesday, Thursday and Friday morning and meet Monday through Friday of the week of February 2.

Mr. Mackenzie: I would suggest not meeting on the Friday of that first week of February. We will be in the process of being in the convention on Friday.

Mr. Williams: So we are limited to four days of that week.

Mr. Chairman: We want to accommodate that very significant event.

Mr. Mackenzie: The beginning of the end for you folks.

Mr. Riddell: It would appear to me, Mr. Chairman, the thing that offends me is that it looks to me that we are accommodating the Tory members on this committee. I have asked the other members here if they are sitting on other committees after February 1. The NDP are not. I think there is one member here who may be sitting on a committee that will last for about a week. So it looks as if we are accommodating people on that side. Surely with the number of members you people have in that party, we should not have to confine the sittings of this committee to accommodate the large number of Tories we have.

Mr. Chairman: That almost sounds like a lament.

Mr. Williams: Let us set the record straight, Mr. Chairman. As you have indicated, the schedule of the committees between the House sessions was set through the co-ordinated efforts

of all the House leaders. The House leaders for, I believe, your party and for the NDP indicated they would have very limited time available for committee meetings because of the events taking place within your respective parties. It has been more an accommodation to the two opposition parties rather than an accommodation for the Tory party, as you suggest, Mr. Riddell, so let us set the record straight.

Mr. Riddell: I would have to look into that.

Mr. Williams: You had better look into that.

Mr. Riddell: If you happen to know every meeting that goes on with the House leaders and know what is going on, then you are a pretty bright guy.

Mr. Williams: You find out where your members are going to be in the last two weeks of February. They are not going to be here and they have indicated that to us.

Mr. Chairman: Let us not be provocative.

Mr. Cureatz: In support of Mr. Riddell's concerns, I for one would like to be accommodating. Actually, I will be away and I think one of our other members will be away the first week of February. You have brought your concern to everyone's attention. If we are speaking in terms of drafting the report, I would like to be here. But I would not expect the committee not to sit just because of my absence. On the other hand, if you are concerned and there are other members who feel it would be worth while to delay it so that there would be another opportunity when all members are available, I would be more than willing to do so because I would love to be here.

Mr. Chairman: Gentlemen, we can check the wording of the motion that went through the House. It is my understanding we have been allocated a certain time frame. I have been proceeding on that. Mr. Riddell, you can rest assured of the chair's co-operation, both with your party and any events that may transpire there, and the New Democrats. I think we are going to have enough time to really discharge our mandate and make a genuine contribution to the--

Mr. Riddell: All I am saying is it is maybe time that government start conducting its business in a businesslike fashion. If we are dealing with an important piece of business, there is no other business that would impose a time limit to accommodate members who wanted to take a trip south or whatever the case may be. If we have important business to do and if it means extending it later in February, if it means getting in touch with the House leaders, Mr. Nixon and Mr. Wells and the rest, then there is no reason we can't get in touch with them.

Mr. Williams: Check with your House leader.

Mr. Riddell: I certainly will.

Mr. Williams: I am glad you will.

Mr. Chairman: I think we will be all right. There is no point in anticipating problems in advance of their happening.

Mr. Williams: We are prepared to sit until the day the House goes back, as far as the Tory members are concerned, Mr. Chairman, just for the record. But we were constrained in what we could do, given our consideration for your needs.

Mr. Mackenzie: How long can you say "no."

Mr. Chairman: Okay, is there any further discussion on any matter other than the current one of sitting times?

Mr. Williams: Can we agree to moving those hearings forward? That is the important thing at the moment.

Mr. Chairman: We will do our best in providing as much time as possible, bearing in mind the interest of the committee members. Further discussions?

Mr. McClellan: May I be so bold as to suggest we are basically out of steam until Wells gets back.

Mr. Chairman: I was going to say if there is no further discussion on the matter before you, then the committee should adjourn and I will do what I can this afternoon to arrange something with Ottawa. Hopefully Mr. Bentley will have sufficiently recovered for the morning session at 10 a.m. The committee stands adjourned until 10 o'clock tomorrow morning.

The committee adjourned at 11:19 a.m.

SELECT COMMITTEE ON PENSIONS

REVIEW

Wednesday, JANUARY 6, 1982

Morning sitting

SELECT COMMITTEE ON PENSIONS

CHAIRMAN: Taylor, J. A. (Prince Edward-Lennox PC)
Brandt, A. S. (Sarnia PC)
Cousens, D. (York Centre PC)
Cureatz, S. L.; Deputy Speaker (Durham East PC)
Gillies, P. A. (Brantford PC)
Haggerty, R. (Erie L)
Jones, T. (Mississauga North PC)
Mackenzie, R. W. (Hamilton East NDP)
McClellan, R. A. (Bellwoods NDP)
Riddell, J. K. (Huron-Middlesex L)
Van Horne, R. G. (London North L)

Clerk: White, G.

Researcher: O'Mara, J., Legislative Research Service

Consultant:
Bentley, W., Public Trustee

LEGISLATURE OF ONTARIO

SELECT COMMITTEE ON PENSIONS

Wednesday, January 6, 1982

The committee met at 10:14 a.m. in room No. 151.

REVIEW
(continued)

Mr. Chairman: I see a quorum. I will call the meeting to order. For an update in regard to our Ottawa venture, Madame Bégin is apparently out of the country. I surmise she may be assisting the American economy with the severe weather in Ottawa.

Mr. Van Horne: What Premier Davis is not spending she is.

Interjections.

Mr. Van Horne: They go to the same place in Florida, do they?

Mr. Chairman: I do not know whether they do. I do not think they share the same condominium, but you may be able to assist me in that regard, Mr. Van Horne.

Mr. Van Horne: We will do a little research. They have been flying together.

Mr. Chairman: I do not know whose jet they are using either.

Mr. Van Horne: Gillies did his best to find them.

Mr. Chairman: I wish you would not contrive an unholy alliance. In any event, she will not be back until Monday, I understand and I will endeavour to speak with her on Monday in following up on our discussions of yesterday. However, we are fortunate in having Mr. Wells Bentley with us this morning. He has somewhat recovered from his new year's break.

Mr. Van Horne: Can I interrupt, Mr. Chairman, please before we get to Mr. Bentley?

Both Mr. Haggerty and I took a look at one of the speeches that Monique Bégin made back in the fall. Copies were received in our offices in the latter part of October. There was an indication there that there was conversation going on between herself, her officials and officials in the provinces.

I got the impression yesterday that it was difficult, at least for this committee, to communicate with Monique Bégin. I am wondering if there is someone else in Ontario government who has been talking with her or her officials? Is there someone else we are not aware of?

For example, is the Treasurer (Mr. F. S. Miller), or someone in his ministry conversing with her?

Mr. Chairman: If I may be permitted to speculate, I would surmise that there has been some communication at a staff level between the Ottawa people and the Ontario people. I again would speculate that would be probably through the Treasurer.

Tomorrow morning we will be having with us Mr. David Stouffer, who is the senior budget adviser. It might be an opportunity to see what discussions, if any, are taking place at that level. As I say, I am only speculating, but knowing somewhat as to how government works, if there is an area of interest I assume there is dialogue at that staff level.

Mr. Van Horne: If I could interject again, I am making specific reference to a speech that she made in British Columbia on October 6. On the second page, third paragraph, the speech reads in part:

"In keeping with the Prime Minister's commitment at the national pensions conference to commence consultations with the provinces in July, a program of meetings at the officials' level was begun this summer. In reports I have received, these meetings have been very encouraging in terms of the willingness of all the governments to work together to achieve pension reform."

Mr. Chairman: I appreciate your observations. Of course, precisely what we are doing at this level is achieving pension reform. I think we have made substantial progress in regard to our interim report.

Currently, of course, we are interested in pursuing specifically a review and possible amendment to the Canada pension plan. I use the word "amendment" advisedly rather than "reform," because I guess it depends on one's perception as to what it is. But I am not aware of any dialogue specifically in regard to the Canada pension plan. I have not been involved in that so that if there is something going on in terms of a discussion with the various provinces in regard to the Canada pension plan, I have not been privy to that, as I say, and have not been briefed or informed in regard to it.

10:20 a.m.

Mr. Mackenzie: Mr. Chairman, on a point of correction: Change your statement to say that we have recommended substantial progress in our report? We have not achieved substantial progress.

Mr. Chairman: I am optimistic that our recommendations will be not only regarded, but implemented, substantially implemented.

Mr. Mackenzie: I am willing to accept that we have made them.

Mr. Chairman: Knowing that you are an optimistic person, as well, Mr. Mackenzie.

Mr. Haggerty: I believe, Mr. Chairman, we have considered pension reform, and I suppose that would include the Canada pension and private sector.

Mr. Chairman: I would assume.

Mr. Haggerty: So will we perhaps have the opportunity to have somebody in from one of the ministries such as the Treasury before the committee here? We can perhaps be better informed if we do have that meeting with the federal minister is the areas where there may be some misunderstanding or some area where there could be further co-operation in coming to a final conclusion on pension reform in Canada.

Mr. Chairman: I think again the person I have identified certainly in the Treasury is Mr. Stouffer, who is working on the whole pension subject, and he is coming in tomorrow.

It may be that Mr. Bentley here, who is with the Pension Commission of Ontario, has his ear to the ground and he could relieve me of my speculation and he may be able to give you some better information. Wells, did you have any comment you would like to make?

I want to make it clear to this committee that I am certainly not taking directions from anyone except this committee. I have not been privy to any meetings. I think we are on our own. I think we have to be open-minded and make our own decisions and recommendations. We are not being led.

I am not getting any instructions as chairman or any advice from anyone except you as members and that is the way I want it to be. As to what is going on at other levels, again, I can only speculate, but maybe Mr. Bentley can be of some assistance because, of course, he deals with the subject, not only in Ontario but has contacts across the country. Wells, would you like to make some comment?

Mr. Bentley: Back in July, the federal government did arrange for meetings with the various provincial governments and, to my knowledge, they have met with representatives of all of the provinces with the exception of Quebec and one other province. I do not have my notes with me, so I cannot recall which other province it is, but apparently there have been discussions between representatives of the Prime Minister's Office, Finance, National Health and Welfare and representatives of the provinces.

I was not part of that group so I cannot tell you what was discussed. I only hear about it as you hear about, so I do not know at what level they were talking, what thrusts were being discussed by the feds with the provincial representatives.

I have seen reports on it and I gather the discussions have covered the whole gamut of pension reform, which not only included CPP, but included the reform of the private system as well, and reform of some of the other programs in existence for income replacement such as old age security and guaranteed income supplement and so on. But as to the extent to which these

discussions have gone and the freedom of information between the various jurisdictions, I have no idea what has really taken place.

I think you would probably be far better off to discuss this with Dave Stouffer tomorrow morning when he is here because I think Dave is much closer to that than I have been.

Mr. Mackenzie: Wells, I think you have pretty well answered the question I had, but do you know in the scuttlebutt in the business whether or not part of those discussions has evolved around something similar to the Ontario provincial universal retirement system proposal as against changes in old age supplement or CPP? Has it been that general or do we know that? I am just talking about the scuttlebutt now. I recognize you were not involved in it.

Mr. Bentley: I gather there were discussions on this, but whether they were rejected out of hand or whether there are to be further discussions, I could not tell you. I do not know, and I would only be guessing if I said one or the other. I would have liked to have been part of the discussions, as you would be aware, but I wasn't, and therefore--

Mr. Mackenzie: Do you know, finally, if the discussions were in the framework of some of the statements such as Monique and others have made, that is, the need for some pretty basic reforms to the whole pension plan?

Mr. Bentley: I understand that is the thrust.

Mr. Mackenzie: That is the thrust?

Mr. McClellan: If I understand it, Mr. Stouffer has been attending these--

Mr. Bentley: I think Dave has a much closer acquaintanceship. Whether he has attended them or not, I could not tell you. I do not know, Ross. But I do know he would have, because these discussions would have been through Treasury officials principally, and the whole thing has to be discussed, the financing and all the other arrangements. So I would expect they would be much closer to this kind of discussion between the federal representatives and provincial representatives than I would have been. I am the idealist, you know that--sort of.

Mr. Mackenzie: You are not the financial man, I suppose, but do you see any indication in MacEachen's budget that anything at all was set aside or allowed in it for any changes in pension arrangements in Canada?

Mr. Bentley: If you ask me for my opinion, I can't see a darned thing of any advantage at this particular moment.

Mr. Mackenzie: Which is probably exactly why Monique is riding both sides of the fence and not doing anything.

Mr. Bentley: I don't know. I am going back to weaseling periodically. You know that.

Mr. Chairman: It is a rhetorical question.

Mr. Mackenzie: We might as well know where we are coming from, whether it is a rhetorical question or not.

Mr. McClellan: There are two rhetorical questions. The first one has been asked, with respect to what the federal position is. The second one is, what is the provincial position? Mr. Miller has not entirely closed the door on Ontario support for reforms to the Canada pension plan, but he said--I do not think I am being unfair--that he does not particularly want to see any changes in the CPP and he would prefer almost any other option to a major increase in public pension benefits.

I would like to point out that it is important for us, as we are doing our work, to be as close as possible to whatever federal-provincial discussions are going on concurrently with our work, and whatever work is going on within the Ministry of Treasury and Economics concurently with our work, so that we are not either wasting our time, and that of a lot of other people, or firing off in all directions.

Mr. Bentley: I would have to agree with that. What we are talking about goes far beyond the provincial border. It is really Canada we are discussing. Whether we are doing it through a select committee in Ontario, or whether it is a group in BC, it is Canada we are really talking about when we talk about pension reform. Whether we are talking about it through CPP or some other machinery, or through reform to the private system, we are talking about Canada.

We cannot limit it to Ontario alone, even though your recommendations would have to appear as recommendations of the select committee. But its impact has to be Canada-wide, and I quite agree that there have to be discussions with the federal people in this area. I wish to God they had the so-called option paper out, so at least we would know what they were thinking. That was supposed to be out by December. I understand it may not be out now until possibly this spring.

Mr. Mackenzie: That is also what isolates the provincial universal retirement system proposal, finding some kind of acceptable method of discussing it with the other provinces or reaching agreement with the other provinces.

Mr. Bentley: I do not know how to explain this. It is a very frustrating position to be in, because whatever action is taken by any jurisdiction in Canada reflects on all other jurisdictions. It has an impact on all other jurisdictions. I think any group having to make recommendations with respect to so-called pension reform in any of its areas should have a much better understanding and a much closer relationship with all jurisdictions. We have to, I feel, somehow establish that. I don't know how we do it.

10:30 a.m.

Mr. Mackenzie: It does give us one option that obviously

has some opposition. But the one avenue there now is improvements, whether of OAS or CPP, if that is a coast-to-coast arrangement.

Mr. Bentley: That's right.

Mr. Gillies: Mr. Chairman, I just wanted to go back to some of the comments we made yesterday, which I still think are very valid. I am concurring with what Mr. McClellan had to say really, in that, regardless of whether there has been contact between officials in the Ministry of Treasury and Economics and the federal government, I still think it is incumbent on the federal government to share with this committee some of the directions it may be taking.

We have a mandate to recommend policy to the government regarding the field of pensions, and I am still very concerned that Madame Bégin is unable to meet with us and that in her letter she said officials would only be able to discuss with us matters of a factual or technical nature. Regardless of what other negotiations may be going on, Wells, at your level or between David Stouffer and other officials, I do hope that through you, Mr. Chairman, we may convey to the federal government our deep concern that it be prepared to share some of that direction with us so we can pursue our work here and come up with some decisions that are going to be meaningful and not just whistling in the dark.

Mr. Chairman: As I say, I agree there are political decisions that ultimately must be made and I think some exchange at the political level is important, as well as having access to the technical information. That is something we discussed yesterday, and that is why I thought it would be worthwhile for our committee, comprised of political people, to sit down with some counterparts in Ottawa at least.

I do not know about the other provinces. Wells has made reference to the impact on other provinces and Ontario has a special position, as you know, in regard to the Canada pension plan. While there probably will be some change, and we have already recommended some change in the plan, I think the critical decision is going to be whether it is the major vehicle for providing adequate pensions. I guess that is the concept of beefing it up, whether by doubling the benefits or what have you.

I am wondering if you are prepared now to get into the subject of the Canada pension plan. We had set aside time for you to brief the committee in connection with the CPP, and maybe we can get into that now, and also PURS. When the committee is discussing one, it may be appropriate to deal with the other, because, as the committee is aware, PURS has shortcomings in terms of universality, I would think, and it may impact on the question of mobility and such matters.

Mr. Mackenzie: The shortcomings would go beyond that, Mr. Chairman. That is an obvious one.

Mr. Chairman: Yes. I was not going to--

Mr. McClellan: You were not asking for a (inaudible)

Mr. Chairman: No. I did not want to do that.

Mr. Mackenzie: I would hope also that one of the recognitions, and I am not being the least bit facetious, Mr. Chairman--given the uncertainty of the whole situation, I believe this committee, if it could find the strength and determination to do so, could possibly take a lead in trying to pull them together in terms of a very definite and positive approach to better pensions. Maybe it is time for Ontario to take the lead, rather than just to look for what might be our position in an area of some kind of (inaudible).

Mr. Bentley: I will apologize right off the bat. To be quite frank I am not an expert in the CPP. I know something about it. I know how it interrelates with private pension plans, but I am not an expert such as you would have with the gentleman who will be before you tomorrow morning.

I am not an expert in PURS. I have read what you have read and I think each one of you can realize there have to be shortcomings within the PURS concept, difficult propositions that would have to be dealt with. There will be difficulties in the application of PURS in addition to CPP which is for all purposes universal in Canada.

The imposition of a PURS program has certain implications that I think the committee is now aware of. The committee has to go into it principally in relation to its effect on certain kinds of employers, small businesses and so on, because there will be an impact. I think you are also going to have to relate the impact of an improved CPP, an additional vehicle such as PURS built into the programs that we have and the other alternative, which may not be an acceptable alternative to a number of you but one that is certainly available. That is--I don't know how else to say it--to ensure that there are methods employed to get the so-called private system off its derrière, for want of a better word. This would be to get it to move into areas it is capable of moving into but so far has resisted, or not made the effort to move into. To me those are the three main areas I think you are going to have to deal with.

Mr. Chairman: Are they mutually exclusive or mutually inclusive?

Mr. Bentley: If you are asking me about the PURS program and CPP I would have to say for the benefit of Canada we would have to give very serious consideration to improvement of the Canada pension plan as opposed to the introduction of PURS, whether it is a provincial program for Ontario only or even if it is a program that would be acceptable across Canada. I think you have to look at it in that way. The whole system is so complex now that it would appear to me you will be adding a further--I am being very careful in saying this, Mr. Chairman--

Mr. Chairman: You don't have to be careful. Sometimes you have to be bold and frank.

Mr. Bentley: At this moment I prefer to be careful. You guys know me. You know I am very careful.

Mr. Chairman: You are 65 aren't you?

Mr. Bentley: I am not ready to retire, though.

Mr. Mackenzie: You are telling us it is exclusive but in terms of improvements to private plans it could be inclusive.

Mr. Bentley: That is what I am saying.

Mr. Brandt: Boldly and frankly.

10:40 a.m.

Mr. Bentley: I am sitting here with probably three political viewpoints that may not necessarily coincide. It seems to me that all I can do for you is to set out the options available to you, and the considerations I think you are going to have to take into account in making a determination. I hope out of all of it will come a reasonably unanimous document which is a recommendation, not only for Ontario--and I will not fail to stress this--but it will have an impact on Canada. Whether it will be politically acceptable in all other jurisdictions, I do not think at this time is material.

I guess again I am saying to you the leadership has to come from here. This is the greatest concentration of population. Of all the other things that make it possible, I think the greatest leadership has to come from Ontario. But I do think, no matter what approach you take, you have to look at it not only in the context of Ontario but in the context of Canada, because really that is all we are interested in.

Mr. Chairman: If I may interrupt at this point, I assume that the object of the exercise is to assure people, once they are out of the work force, having spent a lifetime of labour, an opportunity to live out the rest of their days with some dignity, self-respect and self-reliance. It is then a matter of assisting people to be able to accomplish that independence in their elder years. Is that a fair comment?

If that is the object of the exercise, then the immediate problem is to ensure that you have universal coverage. I would assume that you are going to have to get as many people involved in a process that is going to enable them to have sufficient income that they can live out their days with some degree of independence and self-respect. Is that a fair comment?

Mr. Bentley: Yes, and I would add that the concern is not just for the individual who spends part or even all of his work life in Ontario, but it has to be concerned with the individual who may spend part of his work life in any jurisdiction. We should ensure that person has the freedom to move, which we still have in Canada--we have the freedom to move from place to place where opportunities are before us. I think in the context of income replacement, when the individual determines that he no longer wishes to remain with the labour force or is forced out of it because of a certain policy that may exist, I think we have to

consider on that basis that the individuals must receive reasonably equal treatment, wherever they may have worked in Canada.

Mr. Chairman: Then we are getting into the area of coverage which to me is basic to a discussion of whether it is PURS or whether it is the Canada pension plan. I would surmise again that there may be married women who dedicate their lives to raising a family, which is no mean chore; they may not be in the work force in terms of being on someone's payroll yet the task that they perform I think is a very worthy one if you consider a family to be an important institution. Does PURS cover that?

Mr. Bentley: (Inaudible) no opportunity for that. Neither does the Canada pension plan, at the present time. This has been discussed by a number of people and there are a number of areas that I think you should be aware of. It has been suggested, for instance, that an individual could make arrangements to have the spouse covered by CPP by making the contributions on behalf of that individual where that person is a homemaker. I think if you take that particular approach you have to look at the impact and you know perfectly well that the impact would only be available to those people who could afford to do that.

If you are looking at the lower income wage earner, this lower income earner is going to have a very difficult time to make the payments that might be necessary to cover that person. So if you are going to look at it, you have to look at the matter of possible subsidies. What the subsidies would be I do not know. But it is an area, as you pointed out, Mr. Chairman, that should be given great consideration.

Maybe there are other vehicles that could be found that could compensate in some degree for that situation. It could be considered--and this is only a suggestion off the top of my head--that a vehicle such as old age security for the spouse, which could be utilized to a greater extent than currently is utilized could particularly apply to those people, who whether by choice and not by choice, have remained housewives or a spouse whose function has been to raise a family and who stayed there for a great part of their life or all of their life.

The spouse who may come back into the labour force after raising the family has a limited period of time in which to obtain a benefit from CPP. You are also faced with the concept that where that individual does come into the labour force, they are going to come at the lower levels of income which then reduces the effectiveness of that income replacement for that individual.

I do not know the answers to some of these questions, Jim. I have no idea. But these are the things you would be looking at. If you are looking at a provincial universal retirement system program and you are going to say that it is going to be effective, would it be effective without taking into consideration these same questions that you raised?

Mr. Chairman: What I am touching on is a broader question of coverage. Presumably that is an area that is of concern to the committee.

Mr. Bentley: That's right.

Mr. Mackenzie: I think these off the top of his head comments of Mr. Bentley really are one of the areas that has to have a serious look taken at it, because we have the problem of adequacy of the current pensions, we have the problem of those who are not covered. If there is an element of subsidy, and I am not even sure it has to be that; it probably has to be a general revenue measure; and I do not know a better way to deal with at least part of it than the adequacy for the lower income people through old age security. I do not know how you add a little icing to that in terms of women who have not been in the work force but have been homemakers all of their lives.

The basic minimum level for almost anybody who is in a lower-income job is probably what you can do with what kind of percentage is handled through old age security.

Mr. Bentley: There is another option that is available. You did touch upon it in our last series of meetings. That is the requirement for increased coverage for employees who come into the labour force at later ages, for it to be mandatory for part-time employees to be covered by private pension plans which can add something to the income replacement of the individual at the time that they either choose to leave the labour force or are forced to leave the labour force. That is an option that you started to discuss at the last meetings. It is all part of a coverage picture, Jim.

Mr. Mackenzie: If that is the add-on, it has to be--

Mr. Bentley: That is the add-on.

Mr. Mackenzie: --perfectly clear though that is universally available, it is something you can purchase; whether you are doing it through some improvements or broader changes than we have seen yet in the private insurance industry or whether it is an additional section of the CPP or something like that. It has to be clear that you can, much the same as you purchase registered retirement income savings plans, purchase additional credits from time to time.

Mr. Haggerty: I read an article in an American newspaper that the retirement savings plans, as we call them here in Ontario, are called an individual retirement account, IRA, in the United States. They were considering that they would open it up to include the spouses or the homemaker to use it for a tax deferment that the wage earner could apply an additional tax deduction to include the spouse under that program. Is this an area that the committee has looked at or has anybody in Canada considered?

10:50 a.m.

Mr. Bentley: The program is in operation in Canada. You can buy a registered retirement savings plan for your spouse. There are certain limiting factors. I can get you the details on that if you wish to have it. This program has been there for a while. In fact, I have to buy one for my wife this year otherwise I am going

to pay such a God-awful amount of tax that I cannot afford it. But, yes, that is available in Canada and has been for a time.

But, again, when you are looking at that you are looking at the individual who has sufficient earnings to be able to afford that $2,000, $3,000, $4,000 or $5,000 transfer to his wife's or spouse's RRSP, and even though it is available to the lower income families, it just means it is not available because they have not got the extra bucks to spend on it.

Mr. Mackenzie: That is the fundamental problem. There are a lot of single people who are going to be in that position, or housewives.

Mr. Haggerty: I was interested in the program on the American side in that if you included about $4,000 or $5,000 at the end of a 30-year period you get $265,000 in a retirement savings plan. I do not think there is a program in Canada that can match that.

Mr. Bentley: Yes. Our program has been in existence longer and they have taken their key from us. But, as you said, it is possible to set aside over a period of 30 years an amount that can give you a capital sum for your spouse, or yourself, a substantial amount of money where you can go out and buy a good retirement income.

But an individual who is contributing now, who is working even at the average industrial wage which is about $18,000 now, at that wage, after tax, after all other expenditures, there is very little savings that the individual would have available to put into an RRSP. If he put in $1,000 a year, there is no assurance that he is going to be able to continue to put that in over a period of time. That is a fact. It is not something that I have dreamed up, but it is what happens to people. I think we have to be concerned about it.

Yes, there is a vehicle that can be used. It can be used by those people who have sufficient income to be able to use it regularly. But for those people, and this is the bulk of people in Canada, who do not have sufficient income, even though the vehicle is there, the fact that you cannot use it does not help you.

That is a thing that you are going to have to consider--you will pardon me if my cold keeps coming back on me--possibly then you are faced with looking at a public program which will provide an automatic vehicle for everybody to have some utilization of that vehicle, regardless of what income level they happen to be at.

Whether this is through improvement to the Canada pension plan, whether it is through an additional vehicle such as the provincial universal retirement system, and whether you actually say to private plans, "Look, we are mandating certain additional requirements that you must fulfil if you are going to have a private pension plan," and that is to be able to say to those people currently not covered, "You shall, in the future, cover them even if it is a minimal coverage." I do not know the answer to that.

Mr. Williams: Something like compulsory auto insurance.

Mr. Bentley: Something like that. I do not know the answers. I know the problems.

Mr. Chairman: Do you foresee the PURS plan covering any different base than the Canada pension plan? Would that pick up additional people who would not be covered by the Canada pension plan?

Mr. Bentley: I cannot see in all the reading I have done that it will do anything that cannot be done through the CPP, except possibly one thing. Since it would be mandated, apparently by the province or by provinces, the direction of the contributions and the earnings on those contributions could be made to the private sector.

There is the opportunity under the CPP to do it, but whether the provincial jurisidictions would agree that any additional contributions could be used for this kind of investment rather than--you know it was raised at the last meetings, Mr. Chairman--whether it would be used by the provinces to invest in the private sector or whether it would be used for government purposes only is a determination and a recommendation that you could make.

Mr. Chairman: But it would be controlled by a provincially sponsored organization.

Mr. Bentley: It can be, but then you could direct the investments.

Mr. Chairman: But would not the initial pay-in be to an emanation of the Ontario crown?

Mr. Bentley: It can be set up that way--

Mr. Chairman: Or what is the--

Mr. Bentley: --but it does not have--

Mr. Chairman: What I am driving at is the argument that Mr. Bentley has made--at least, I assume that he is making it--and that is that the provincial universal retirement system might be more private sector oriented than the Canada pension plan. What I am doing is questioning whether that is so or not, if the initial moneys are paid into a government-sponsored agency, if you could comment on that.

Mr. Bentley: The recommendation is that the investment structure should be such that the moneys through the PURS program would flow back for investment in the private sector.

Mr. Chairman: Through what vehicle?

Mr. Bentley: Through a vehicle such as the central pension agency, whatever you would call it.

Mr. Chairman: Through a central pension agency--who sets up the central pension agency?

Mr. Bentley: The government.

Mr. Chairman: So it is a government-sponsored agency.

Mr. Bentley: That is right.

Mr. Chairman: That government-sponsored agency would be redirecting those moneys so that they would be subject to the same political pressures, presumably, as the Canada pension plan.

Mr. Williams: Why would the moneys have to flow through a central agency? Why could they not flow directly out with the reporting to the central agency as to how the funds have been disbursed?

Mr. Bentley: It does not have to flow automatically. It can be done through a number of vehicles as you would be aware, but it seems to me that if you are going to do that it would be much more efficient to have them flow through one agency than for redistribution, whether this is done by trust agreement with a number of investment people or however you do it.

It seems to me logical that would be the approach that should be taken rather than to have a rather helter-skelter system which might be, if you just permitted each individual to move it into the area of his choice.

Mr. Williams: My thought there, Mr. Bentley, is if it flowed through the central agency then the central agency would be vested with the responsibility of making a selective choice of investments in the portfolio rather than leaving that with the particular plan. It seems to me that, surely, people who set up the plan for their employees, or whatever, should be given that right so long as they are investing within certain well-defined guidelines established by the central agency or whoever under legislation.

Mr. Bentley: Let me give you an example of what I mean. You are an employer of three employees. Do you want to be bothered with the direction of how the investment should be made?

Mr. Williams: Not necessarily; I am saying the option should be there and that is what I am suggesting. What I am taking from your comments is that it would have to in all instances be the clearing agency or the clearing house--the central agency that would--

Mr. Bentley: I am sorry. I did not make that clear.

Mr. Williams: I thought that it could be optional.

Mr. Bentley: It could be optional.

Mr. Williams: It could be optional if the employer was large enough that they had the managerial clout and personnel to manage the fund on their own. Surely they should be given that

...gh the central agency.

____________. Mr. Williams, if I might make this interjection. If that was the situation with a large employer, I would say that the probability--and it is more than a probability--would be that they would have an in-house pension plan which would exceed the minimum PURS plan.

11 a.m.

Mr. Bentley: This was the point I wanted to bring up with you, Mr. Williams. When you are looking at a PURS program and you have all of the negotiated programs that are in existence now, while these are established by the employer unilaterally, I cannot think of one which would have a base that would be less than what the proposal under PURS would be. Therefore, you would have to deal, I think, with this kind of a situation. You would have to arrange, or at least consider arranging, for that kind of an employer to opt out of the PURS program.

Mr. Williams: That is what we talked about earlier on.

Mr. Bentley: That is right. If you are going to cause him to have to integrate part of his program with PURS, then, yes, it could be handled your way. But the logical approach would be that, if an employer has a program that is better than the PURS program, it would be entirely possible to have that plan opt out under certain rigid conditions, and the conditions would have to be rigid. There would have to be at least reasonably equal vesting and transferability rights. All of these things would have to be in there because that is built into a PURS program.

Mr. Williams: In other words, if that particular employer's program was richer or above the minimum requirements as spelled out at the PURS level, then, of course, they could go on their own as long as they were maintaining a standard above the minimum requirements.

Mr. Bentley: That is right. But if you have an individual who transfers out of that program, what level of benefits are you going to cause to be transferred out, those equivalent to what he would have received under a PURS program or the full benefit? In other words, are you going to make the vesting conditions exactly the same for the employer's plan as you require for PURS, or are you going to require a minimum transferability of the amount that he would have received if he was a member of PURS to be the amount which is transferred out, if I have made myself clear?

Mr. Williams: I guess that is one of the problems we have to grapple with and resolve.

Mr. Bentley: That is right.

Mr. Chairman: PURS is not designed as an add-on plan, is it, whereas the Canada pension plan in effect is? At least I see that distinction there. Am I correct in that or not? I thought that PURS was to ensure that you had a broader base covered with some kind of a pension, not that it be stacked on top of the Canada

pension and the employer's pension or current plan. It was something to be introduced whether, in fact, it was not an employer's pension plan.

Mr. Bentley: Then you are talking about a different thing, because if you are saying only to those employers who have no pension plan, "We will now cause you to have a PURS program," that is one thing. But if you are going to treat employees with some degree of equity, that is the transferability between the current, private plan which is automatically excluded from PURS, and the PURS program, you are going to have to have some degree of equity for transferability of pension rights, and that is another thing which you are going to have to deal with if that is the approach which you are going to take or that you decide to take. You are going to have to look at the ramifications of all of these kinds of things.

You made a recommendation--and I suppose I was part of it--that vesting should, in a private plan, be after five years of service, with the possibility of improvement. You placed the onus on the pension commission, at the end of three years, to review that situation. You make the vesting--and the vesting rule comes through under the Pension Benefits Act that from this day forward, vesting shall take place after five years of service.

But under the PURS program, you are not saying that. You are giving a much tighter control through vesting to the employee who is affected, that is, the transferability right. Are you going to say to the major employer, who already has a plan, with respect--and this you have to consider--to the benefit that is derived under his plan, which is comparable to what would have been derived if he had been a member of PURS, are you going to allow him the freedom to transfer that as he has under the proposals for PURS? It is a complicating factor, but it is there and is something that you are going to have to look at.

I am sorry I cannot give you any answers to any of these things, but some of the things appear to me to be things that you are going to have to consider. That is the best I can do.

Mr. Gillies: I think one interpretation that could be placed on what you are saying is that PURS would in a sense establish a minimum standard, that the vast majority of industrial employers would probably be opted out.

Mr. Bentley: Very likely.

Mr. Gillies: I think very likely. So PURS is one option, then, I guess, of attacking the coverage problem.

Mr. Bentley: That is right.

Mr. Gillies: But in a sense, it sets a minimum standard, does it not? It says to the people who have existing plans: "This is what we are going to bring in. If you are already providing a better system than that, go ahead." I suppose one way an employer might look at it is, if you want to avoid the bureaucracy, if you

want to stay out of PURS, then you initiate a plan that is slightly better than it.

Mr. Bentley: Then again you end up with transferability rights, and that is something which you are concerned about, the so-called portability. I will not use the word portability; it rarely is. It is a transfer right, where you are saying to the employee, "Look, in order to build this accumulation, however it is done, in order to build this accumulation so you have a reasonable level of income when you are no longer in the labour force, you have to arrange for transferability rights in some manner," whether this is to his new employer, whether it is to a locked-in registered retirement savings plan, or whatever vehicle you determine is a reasonable one in which to place this sum which will be accumulating constantly through the employee's efforts, so that when he reaches retirement age there is a capital sum available for him to go out on the market and buy the best annuity he can get at a given moment.

You have to look at transferability rights. Whether you like the idea or not, it is part of the so-called reform package, no matter which approach you take; whether it is simply through the improvement of the private system as it exists now, with certain requirements to add on people who are currently excluded from coverage, and this is principally part-time employees. If you are going to go beyond that and say, "Look, we want an adjunct to the CPP"--because really that is all PURS is, it is a program to build on to the CPP without disturbing the CPP as it exists in Canada at the present time--then you would have to consider giving transferability rights to the individuals who accumulate funds through PURS, you have to give those rights, and now you are adding in a complicating factor by inserting another thing between CPP and the existing employer plans.

Whether it is a good thing or not, I am not arguing. I am just saying these are some of the areas that I think you have got to look at over the course of the next--

Mr. Gillies: I quite agree with you. I think it is a key issue, because other members may be getting the same feedback I am. I am increasingly getting constituents saying, "Hey, I've got so much benefit accumulated in a plan, and the return on it is absolutely dreadful, and if I had control of that money I could invest it and get a much greater return." The lack of flexibility there is something that I think we have to address.

Mr. Bentley: That is true at this particular moment, but I can take you back to 1974 when people with RRSPs, and depending on the type of investment they put their RRSPs in--and I used to know some people that, if they had had to cash out at that time, would have been lucky to get out with 60 or 70 per cent, because of a market condition. It was not a permanent market condition, but if the individual went up for retirement at that time, that was what he faced.

I have the same arguments presented to me, that, "Yes, I could do better than what my pension plan is doing." Whether in the long run he really can or cannot, I do not know and neither can he.

All he can say is, right now, "Yes, I can go out and get 15.5 or 16 per cent interest on my moneys that I have available to invest," which he can. But I do not know whether he can get that four years down the road. I do not know what kind of investments he is going to put his money into, whether it is going to be Canada Savings bonds or whether it is going to be a good chunk of it in equities. I have no idea what he would choose.

11:10 a.m.

I think you covered that in one of the recommendations, saying that as far as the employee who transfers his money out the employer has no further responsibility. What you were saying at that time was: "Okay, Joe, if you take your money out and you go into equities and at the time you are up for retirement you can only get 75 per cent of what you went in with that is tough bananas. That is the way the game is played."

Mr. Gillies: You win or lose, it is your decision.

Mr. Williams: Was that not the main feature of adopting, or being sympathetic at least, towards the locked-in RRSP concept which would assure the continuity there as far as the portability feature and the associated problems to portability that we have been talking about in the private sector? This would ensure that there would be this continuity of keeping those assets of the individual employee in the pension area.

Mr. Bentley: That is right. I am not disagreeing with the principle, John, you know that. What I am saying is that when a person comes to me and says, "I can do better than what my pension plan is doing," I do not know whether he can do better in the long run. After all, if he is only age 35 I do not know what he is going to end up with at age 65, and neither does he.

Mr. Haggerty: That is another problem. Take a close look at the pension plans now in some of the larger corporations here in Ontario, I think they are fair. They are good pension plans. I am thinking of Inco, for example, and John Deere, particularly around my area. They have a better pension plan than many others, and the employees, although they may not be happy with the job, stay there for the purpose of the pension. As soon as you put the portability in you are going to have more individuals who are going to move from one place to another. They are not going to stay working for an employer for 20, 35 or 40 years; they will be moving out wherever they can get the two or five cents an hour more. They will be moving in that direction.

As far as portability goes this is one of the areas that is going to cause employers problems. I can think of the PURS program which suggests a type of retirement plan. I can see the extra cost to companies who have to keep additional staff to assess the changes when individuals leave an employ.

Mr. Chairman: Would the PURS contributors be any different than the Canada pension contributors?

Mr. Bentley: If you ask me for my opinion, I cannot see a hell of a lot of difference.

Mr. Chairman: They are the same people. In other words, if you mandate a PURS plan then it is going to be an add-on to the Canada pension plan. That is what I am getting at. It covers the same people and presumably it does not enlarge the coverage.

Mr. Mackenzie: Two mechanisms to do one job is not really going to make a hell of a lot of sense.

Mr. McClellan: You still have not dealt with some of the structural problems within the Canada pension plan with respect to home workers, part-time workers or low-income workers so you are simply setting up a parallel mechanism which duplicates the defects of the Canada pension plan so that the principal problem that we deal with politically, the plight of single pensioners below the poverty line, would not get any help at all.

Mr. Chairman: What you are doing is mandating a second plan. The Canada pension plan is a mandated plan, so what you are doing is mandating a second plan on a provincial basis which is going to cover the same number of people and which will provide for a two per cent contribution by the employee and a two per cent contribution by the employer. That is all.

Mr. Bentley: I cannot see anything different, except what I spoke to John about. That was the fact that the ultimate investment of that would flow back into the private sector.

Mr. McClellan: When Donna Haley was here before the committee she conceded that the principal rationale had been an investment rationale, that what they were concerned to do is make sure that people got covered, number one, but that the fund did not end up in the public sector, that it was in the private sector.

Mr. Chairman: Then what would the difference be in mandating that all employers have a pension plan? I am not advocating this, because at the moment, as I understand it, there is nothing to force us to have a private sector pension plan. But what would the difference be in mandating that all of the private sector have a pension plan and set the same standards as the PURS? That, in effect, is what you are doing.

Mr. Mackenzie: Except that you might have a dozen or 100 different carriers unless you set one--

Mr. Bentley: My suggestion--and I think it is something that you should consider--is if you go the PURS route, whether you should have a number of different carriers, allow them to receive under parts of the program, or whether you should say this is sponsored by the provincial government or by provincial governments and therefore the function of the provincial government is to ensure that the investment of those moneys goes back into the private sector under certain conditions, and it can be made. You can make those conditions, sanction them, and whatever contributions flow in can go back into it. You can even enlarge it to allow certain selections of employees to move to--you can build

into that program. It will become complicated, but it is entirely possible to build into the program the opportunity for the--

Mr. Mackenzie: You could legitimize some of the Tory investments just like that.

Mr. Bentley: I was not talking about anything like that.

Mr. Haggerty: You have similar plans now as it relates to private investment. Take Ontario, through the Canada pension plan and the millions of dollars they have been able to borrow at a reasonable interest rate, that it has been applied to certain projects, such as schools and universities in Ontario, which has allowed the government to go into other areas of taxation to collect revenue that comes into the Ontario Development Corporation. There are million of dollars there which are being funded through that corporation. It goes back to the private sector.

It is the same thing with the Canada Development Corporation. The pension plans allow the government, in some other area, to generate revenue and it is applied to a corporation there that funds it out into the private sector. So the government is in this particular area now.

I suppose when I look at it here, it is just a fight between who can get the largest extra capital through pensions or the private sector. Government has a hand out there and the private sector has a hand out here. They are saying, "There is an area that we can tap." It is a fight for money. I have seen the short-change of pensions and I have personally gone through it myself. I thought I was in an industry in which I was going to be secure with some form of a pension. For various reasons, a person moves on and you lose that. You get back what you put in there.

I can cite other areas where private pensions in the past have been brought to my attention. A person worked 38 years in an industry and thought that the company was matching such a program in this private sector, and lo and behold, it was not that. All that remained to his surviving spouse was just the portion he had paid into this particular insurance scheme. I will tell you, it has been a shortfall. I have seen different schemes in the province and there are some companies that have exceptionally good plans, but I can just see the scramble here for the private sector and the government in getting some easy capital or easy funding for certain projects.

I still look to the United States, and even though we may be better in some areas in the pension schemes, much of their pension plans are funded by the private sector, but they invest in the government bonds and things like that and secure the programs and plans over there.

By getting into an additional retirement program here I can just see us loading up government bureaucracy to make sure that you are policing these present investments by larger companies and individuals, or a combination of two or three of them together. I can just see the extra cost involved. I am new on this committee

but I have not seen anything yet to show me the long-range benefits in this program as we go into extending the PURS program into other areas of industry that perhaps do not have any pension plan.

11:20 a.m.

Mr. Chairman: What you are saying is that you do not see any benefit to the PURS proposal.

Mr. Mackenzie: I wonder, Mr. Chairman, if Wells can respond to a bit of a concern that I have. We are obviously going to do it in any event, but it seems to me we are going over what I am sure was years and years and years of agonizing as to how in blazes we establish some kind of a basic pension plan for Canadian people that led up to the establishment of a combination of OAS and CPP to begin with. It was a debate that went on for years and a hell of a lot of people who were really involved in it came to that conclusion. We are, to some extent, covering the same ground here again. I guess we will do it.

I am wondering, in any other areas of the world where they have pension schemes, whether they are as good or not as good as ours but preferably where they are better than ours, if there are any areas where they have been able to effectively meld the public plans and the private plans. I have a suspicion that something along this line has been met in West Germany, I am not really sure, although I suspect that the investment could not be invested by the private sector without some accountability.

It seems to me that in most countries where they have got a universal pension plan they have gone the public route. I am wondering if we have any particular examples or if we can get any. It might help us in what we are trying to decide here, if there are two or three examples where they have been able to meld the two approaches.

Mr. Bentley: I think that you have to look, not only at West Germany, but at the programs in existence in France, in the Netherlands--I forget which ones particularly--I think you should take a look at the programs in Sweden. I think also you should take a look at the programs in existence in England.

Mr. Mackenzie: Do we have any kind of--I guess it is difficult to get--an effective summary of those?

Mr. Bentley: I think our library has some. I have not looked at them for years but if I have not got any, Mr. Tulloch, our research officer, will find them for you.

Mr. Williams: In that regard, Mr. Chairman, a lot of the committee members attended the pension conference that was held at the Skyline Hotel--the Financial Executives Institute pension conference. I believe our provincial Treasurer spoke back in November and was one of the keynote figures at that conference. Another of the keynote figures, I think, was your counterpart from the United States who had been a very high placed civil servant in the US administration and recently retired. He had done very extensive comparative analysis of programs in the European

community and gave some analysis and comment on the various programs available there.

I think the information that flowed from that was quite revealing and quite interesting and, I think, would address the comments that have been made. If that information could be tracked down and made available to us I think it would speak specifically to the questions raised and the comments made by Mr. Mackenzie.

Mr. Mackenzie: I am concerned particularly whether they have been able to meld the private and the public plans with some universality accomplished.

Mr. Bentley: Yes, I know what you mean.

Mr. Mackenzie: It may give us some guidelines--that is all I am raising it for. I obviously have my own biases in this whole area of pensions but I think, if we are going to discuss this, that kind of information will be useful.

Mr. Bentley: I can get you summaries. I will get Mr. Tulloch on it right away and we should be able to get them in a matter of days. There are some good summaries around but I just cannot recall what our library does have on them.

Mr. Chairman: That would certainly save some travel if you could do that.

Mr. McClellan: They say second-hand is second-best.

Mr. Chairman: That might be useful. Presumably you are talking about a blend that will accommodate--

Mr. Mackenzie: If there are examples that we can look at. Whether they are appropriate for us or not, I do not know. It may cut down some of the time we will spend on discussing this, because I really do have the feeling, even though it may be necessary, that we are just covering ground that has been covered for years and years and that the final line so far-- What I am looking for, is there something that can give us an argument to look at any of the private plans. It seems to me that the bottom line in almost every case in the discussions in Canada has come down to the only effective, universal way to do it is through the OAS and the CPP.

Mr. Chairman: That is a point of view.

Mr. Mackenzie: It is what has happened up until now; it is not just a point of view. Whether it is mine or not is--

Mr. Chairman: When you say it is the only method, that is going too far.

Certainly, I would think that the Canada pension plan is here to stay. What I am questioning is whether you want to stack a PURS plan on top of that. If you want to mandate additional extractions from employees and employers in terms of deferring some income, then I am questioning the sense of creating a separate mechanism to do that.

Mr. Mackenzie: No, it does not make any sense to me. But we are obviously going to go through the discussions.

Mr. Chairman: Mr. Bentley, again maybe I am going over old ground, but obviously the royal commission spent quite a bit of time on this. They did some in-depth studies in terms of the coverage problem. They came up with this PURS program. All I am doing is asking you again, I suppose, whether you see any advantage to that PURS program. If you do not see any advantage, what disadvantage do you see?

Mr. Bentley: Having gone through it and heard it discussed in every area that I can think of, including discussions with members of the pension commission of Ontario--and I am not quoting them--but my own personal opinion is that the add-on through a PURS program is unnecessary. We have existing vehicles that can do the same job and I think more effectively. They are in place. It is a matter of how far you want to recommend changes to what exists.

I do not think that the additional machinery that would be required to to operate a PURS program is necessary. In other words you are going to have to set up a bureaucratic program and put somebody like myself in charge of it. You are going to have to have a staff that will be performing no other function than a function of an add-on to what exists.

If you are looking at it seriously, you should look at it from this viewpoint. First, is it necessary to increase the level of benefits for people under the existing programs? This includes CPP and very likely old age security. I am leaving out the guaranteed income supplement because you already dealt with those in the previous report as to the way you felt they should be utilized to bring people up to at least a level of income which is equal to the so-called poverty line, whatever that may be.

If you are looking at it, you have to look at it in terms of coverage. Can you get the same coverage from CPP with possible changes in the structure of the CPP? Can PURS provide additional coverage that would not be available through the CPP?

11:30 a.m.

You also have to look at the function of PURS in its relationship with not just CPP but with the existing private pension plans. At the present time we do have, and have had over a period of years, a reasonable relationship between CPP and private plans that are in existence. Do you want to disturb that to a great extent? No matter what recommendation you make, whether it is the PURS approach or whether it is the improvement to CPP, you will be disturbing private pension plans. I think that whatever approach you make you should understand the ramifications of those changes with existing private pension plans because there will be ramifications.

This will be a matter that will affect union negotiations in the future very seriously. It will be a matter that will affect the establishment by an employer, unilaterally, of a pension plan for

his employees which is really supplementary to the existing CPP arrangement.

I do not know how to state it any more simply than that, but these are the things I think the select committee has got to look at in order to come up with a recommendation that is workable in Canada, not just in Ontario, and provides a degree of equity. If you are seriously concerned about income replacement for people who are forced out of the labour force, for whatever reason, I think these are the things that you have to look at and you have to be concerned about.

To me, adding the third level is, in my view, unnecessary, but you do not have to take my word for it. I think you have to go into it in depth and understand the ramifications of this additional vehicle that was proposed by the royal commission.

I do not know what else to say. That is the problem that you are faced with, and that covers everything--coverage, the extension of coverage, the improvement of income replacement for individuals who are forced out of the labour force. That is really what you are looking at.

Mr. Chairman: You have answered my question in terms of PURS. I was asking whether there are any advantages or not. Your response, as I understand it, is no--that anything PURS could do can be done and is being done now through the existing mechanisms--presumably through the Canada pension plan, private pension plans and registered retirement savings plans. You did not mention those three but I think that is what you meant.

Mr. Mackenzie: Mr. Chairman, would it help us focus matters or would you consider it premature if a motion was put that the PURS approach, per se, be rejected by this committee? That may help us focus on what we have to do in terms of the universal plan and in terms of melding in what is there in the private area. There may be people here, but I have not yet heard a defence of PURS or, more importantly, that it would be particularly advantageous to set up the third tier. It might be that we can start getting into more serious discussion if we move the motion that we reject the PURS approach.

Mr. Chairman: In response, I think it may be premature to put a motion such as that.

Mr. Mackenzie: I prefer to move it also simply because I do not think we are going to focus real discussion as long as we are fooling around with it; yet there seems to be no support for it.

Mr. Williams: Mr. Chairman, I think it would be presumptuous for the committee to be making any major recommendations in the way of motions at this time pending hearing from the rest of the delegations that are going to be coming before us in the next two weeks. I think it would be an affront to them to make your decisions before they even have had their say in the matter. There is no point in holding further hearings if we are going to start this prejudging of the situation regardless of what some of the thinking may be in the committee. I am not arguing with

Mr. Mackenzie, but I think it is the wrong time to start taking those kinds of steps. I think we have to bide our time for the next couple of weeks. We are simply trying to crystallize our thinking in this and get an overview of the situation without taking specific action.

Mr. Mackenzie: I am just trying to get us into discussing what has to be discussed.

Mr. Williams: There may be others who feel there is some merit to PURS, notwithstanding the negative aspects of it that have been emphasized here this morning. I do not think we can assume that it is put to rest.

Mr. Riddell: We do not know all the facts either. We seem to have been concentrating on the benefits of various programs. We have not looked too much at the cost. I am going to tell you, the scary thing to me and to anyone I have talked to about this matter is that if we go, say, the Canada pension route, as we learned in the last session of this committee, it is going to amount to about one fifth of one's income by way of contribution towards this kind of plan. When you tell somebody they are going to be contributing 20 per cent of their income towards a pension plan, they look at you and say, "Look, boy, you are telling me that--"

Mr. McClellan: Where are you getting the 20 per cent?

Mr. Riddell: That is what it says. In the last session, if I recall correctly, if we were to double Canada pension benefits it is going to amount to about 18 per cent of your income by way of contributions a few years down the road.

Mr. Chairman: The speculation was that if no change is made, the Canada pension plan premiums would have to be increased to about nine per cent. If you are going to double that, it is about 18 per cent.

Mr. McClellan: That would be in the year 2050.

Mr. Chairman: Those were some of the figures that were thrown around. I am not verifying those figures; I am just redirecting your attention to some of those without commenting on their accuracy. I think your question is valid in terms of the cost.

Mr. Williams: Those statistics are on page 23 of the summary report dealing with contribution rates. They would have to be increased to 12.53 per cent from 1980 to fund the CPP, including amortization of the present unfunded actuarial liability of CPP over 50 years. Then it goes forward from 1980, indicating further additional costs that would be involved.

Mr. Riddell: The point I am trying to make is we really have not considered the costs of the various programs, so it is premature to say we are going to reject out of hand one of the programs, which may be the most cost efficient in the long run. I don't know that much about the PURS program.

Mr. Chairman: One of the disadvantages you mentioned when I asked you if there are not any advantages what the disadvantages are, was another layer of bureaucracy which is unnecessary to create when you had one in place already with the Canada pension plan. The other thing you mentioned was the impact on collective bargaining, which you may want to explain a little further.

Something you did not mention was the impact on employers and employees, because generally speaking these people would be in the lower-paid jobs and would be the small businessman. Is that not correct?

Mr. Bentley: That's right. Whether you go the PURS route, whether you go the CPP, or whether you leave CPP and go the PURS route as an addition to CPP, there is a cost impact. Most employers in Canada now are required to contribute to the CPP. There are very few who are excluded; farmers and fishermen are about all, if I recall correctly.

Mr. Riddell: Those damned farmers get all the benefits!

Mr. Gillies: Do we have enough information at our disposal, Wells, to attempt to quantify the cost projections on these various plans? In the last session and yesterday and today, we keep talking about the cost implications of CPP and PURS. I think it would be very helpful if we could take a couple of sample income brackets, build in some inflationary assumptions and apply the two models to them to see what the cost implications are. Is that possible?

Mr. Bentley: It is possible. I do not have the facility to do it. My computer will not take that kind of information. It is a working computer; it is not for development. But I am sure that somewhere in government this facility exists, perhaps through Treasury. It might be something Dave Stouffer's people could develop for us.

11:40 a.m.

Mr. Gillies: I wonder if other members of the committee think this would be useful if we could ask our research staff to look into this. I think it would be helpful for us to have some concrete figures to base our discussions on.

Mr. McClellan: Before we do it, Mr. Chairman, we should find out how much it would cost to do those kinds of computer simulations before we authorize that.

Mr. Gillies: I agree. I have no idea what it would cost.

Mr. Cousens: Mr. Chairman, I support what Philip was suggesting because in dealing with theory and philosophy--and I think we have done a good job of trying to understand concepts, but I would like to see some practical numbers that come out in a couple of model situations so that we can then really get a feel for the impact of some of the potential recommendations that could come from this committee. Jack was saying it very well with the fear of the high cost of it. I would like to get a good sense of

that before I made any decision. That is right down-to-earth, practical thinking.

Mr. Chairman: In that regard, we have not undertaken research of that nature in the committee. We try to utilize what has already been done by the royal commission.

Mr. Williams: That material is in this report.

Mr. Chairman: I think it may be here already and I am suggesting that you look at that. Even simulations are not necessarily correct.

Mr. Williams: There is a fairly thorough analysis done on some of these cost implications in the reports.

Mr. Bentley: Yes, there is. I do not recall which one, John. I will have to go through them. But there is an awful lot of information available there.

Mr. Williams: We can just draw on the report itself.

Mr. Cousens: We could spend time on it at some point over the next few weeks. Can I make one more comment? I appreciate what Bob was saying in trying to head off unnecessary, prolonged discussion on certain things where we might well come up with a negative conclusion or not make a recommendation. To that extent, I would like to see us at least look a little bit more at PURS before we close the door on it. I am almost where he is, but I would be afraid that by doing so we would cut the process in half and not give that full opportunity that we, as a committee, should be giving to that recommendation.

Mr. Mackenzie: I said from the beginning the Tories were not going to buy PURS and you are encouraging my belief.

Mr. Chairman: You are not always right. There has also been the suggestion of a modified PURS program too. There has been some suggestion that it be--I think it was the Canadian Manufacturers' Association--implemented at the option of the employee. I should not quote anybody, but somebody who came before us suggested it might be available at the option of the employee.

Wells, you did not develop your comments about the impact this has in terms of the collective bargaining process, or what it might mean in terms of further--I hate to use the word "confiscation" because it is really not that--deductions from salary of moneys that the contributors might be in the worst position to afford at that particular period in their lives.

Mr. Bentley: The point I was trying to make, Jim, was simply that since CPP is in existence, it is recognized when there are negotiations, or it is recognized by the so-called co-ordination between the benefit structure of the private plan in relation to the individual's expected income from CPP and, in some cases, from old age security. So there is an integration factor which has historically been in place ever since 1966. There are

very few plans that stack the private pension plan on top of the existing CPP. A few do, but not too many.

If there is an increase in CPP, and I think you could safely say that if there is a PURS program--and this is something you are going to have to look at--and there is no right of opting out of the PURS program by any employer, you are going to find that there will be integration or co-ordination between the level of benefit offered by the private plan to their employees which really says: "This is your maximum benefit. However, you will receive certain benefits from the CPP and we will use that as an offset to the level of benefits that you will get."

That exists in our own plans for the public servants. It exists in most negotiated plans that there is a recognition that the ultimate level of benefit would be such and such when the individual reaches age 65, but part of that benefit will be made up from CPP and, in some cases, including old age security. So if you increase the level of benefits through CPP you are automatically going to affect the co-ordinating formula, at least I would expect so, that you would automatically cause the co-ordinating formula in the private pension plan to be changed, to some extent, to recognize the increases in CPP, or if you add on a PURS program, to recognize the increases in level of benefits that would be obtained both through CPP and through the PURS program.

So there will be an effect on the private pension plans in existence, or that would come into existence in the future, because they will necessarily say there has to be some co-ordination between all of the benefits that are available to the individual, even if these come at varying times in the individual's work life.

In other words, many plans now provide that you can retire at age 60 after 10 years of service, and they will build a bridge between age 60 and age 65 when the CPP would be payable to the individual, and the bridge is paid by the private plan for that period of time so that if the individual leaves at age 60 he gets full benefits, which would include the amount he could be expected to receive from CPP. At age 65 that benefit disappears from the private plan but it is replaced by the Canada pension plan benefits.

When you start adjusting it you know perfectly well there are going to be adjustments to the private plans to recognize increases, however the increases come, whether they came through CPP, whether they came through a combination of PURS and CPP, or whatever. There has to be a co-ordination, and it will have an effect. No matter what recommendation you come up with it will have an effect on those private plans that provide for benefits over and above what an individual would be entitled to from CPP at the present time. That is the only point I was trying to make. It would affect negotiations in that in negotiations you are going to have to recognize the greater level of benefits that might be provided through CPP and/or PURS.

Mr. Chairman: Do you perceive PURS as an add-on?

Mr. Bentley: It depends on the way you approach it. If you say it is mandatory for all employers regardless then it will

be an add-on to employers who already have a private plan in existence. It will be an add-on to those employers whose employees are currently only covered by CPP. It has to be an add-on.

Mr. Chairman: Regardless of the benefits under a private plan?

Mr. Bentley: Regardless. They will be co-ordinated in a different manner, Jim, than it is now.

Mr. Chairman: So it is going to cost both the employers and employees more money.

Mr. Bentley: To increase the CPP it is going to cost money, and PURS is going to cost money.

Mr. Riddell: It will be an add-on as long as Canada pension remains in place, which you say it will, and it will be an add-on as long as private concerns have their own pension plans, but if PURS was introduced and everybody went the PURS route, and Canada pension then went by the wayside it would not be considered an add-on.

Mr. Bentley: That is true, but you almost automatically have to go on the assumption that it is going to be well worthy in some form.

11:50 a.m.

Mr. Haggerty: But has there been any consideration taken into the present additional program for retirement, that is to the retirement savings program? More people are moving in that area. That is an option they have. The question is you can come in with another pension fund. That is going to tap another source where the person says, "Well, that is an infringement on my rights that I want to take this route here." That is the risk that a person will take if he takes the retirement savings plan. That is where the private sector comes in.

I suggest there is nothing in the document I have before me to indicate there has been any study in this particular area. What effect will it have on Canada pension if there is a provincial pension scheme? The other private sector industries have their own pension plans. You find out that any number of average income earners are looking to this area of early retirement savings program plan.

Mr. Chairman: What you are saying--at least what I hear you saying is you would be mandating savings through a specified mechanism if you go the PURS route, which deprives people of their right to choose the route which, in their case, might better be a registered retirement savings plan.

Mr. Haggerty: That is right. I mean it would perhaps have higher returns on their investment. I think Mr. Bentley said there is no guarantee with one of the PURS things that the person who is going to invest in this thing is going to secure a certain return

for his money. It depends upon the market. It fluctuates year after year.

Mr. Bentley: Yes, it does.

Mr. Haggerty: In this particular area, I think I would put more confidence in private savings than venture into a program that would go this route. I think I am looking at persons in trust companies that are good financial experts in the area that I think they can well manage the funds.

Mr. Bentley: I suppose that is an arguable point in this respect, that an individual pension plan utilizes a pooled arrangement for its employees in that somebody selects an investment counsellor, a trust company or an insurance company, to invest the funds of the pension plan and the objective, of course, of that investment is to obtain the highest rate of return at probably the least possible risk.

The difference between an individual who may be doing his own investment--John may like a highly risky thing and when he comes up for retirement maybe that is only worth 50 cents on the dollar, I do not know. The argument for a pension plan is the pooling arrangement, the limiting of the risks because we do under law at the present time set both qualitative and quantitative restrictions on the kinds of investments and the quantities of investments that can be held by a pension fund principally to ensure that both qualitatively and quantitatively the risk is spread over the total market rather than putting your eggs into one basket.

If you are talking about a pension fund that may return on the average now nine per cent, whereas an individual can go out and get 15 per cent, 20 years down the road that nine per cent may have been a hell of a lot better because of the fluctuations the individual may obtain or may be forced to accept under current market conditions as they change day by day.

The pension fund is looking a long way down the road in the investments it enters into. Who the hell is going to be proven right down the road, I do not know. But the argument is that through the endeavour to obtain a maximum rate of return with the least possible risk, because you have to ensure that the bucks are there to pay for the benefit when the person becomes eligible to receive it.

Which is going to be the best down the road, I do not know. I believe a pension plan, by its nature for most people, will be the best arrangement. If they want and have the facility, the capability of investing privately over and above that then that is an option that should be available to them. That option would be available whether or not we increase the CPP, whether or not we add PURS.

It may be limited because certain people within a certain salary range may not be able to put in that additional that they can now put into an RRSP because they are forced into a mandatory arrangement, whether it is improved CPP or PURS or both. They may not have the extra bucks to put into a private arrangement. But

that is true at the present time because anybody below the average industrial wage now has very little extra bucks available to them for this kind of investment, and they cannot get the tax consideration because they cannot make that kind of investment because they do not have the bucks.

Mr. Haggerty: But it is a source for the private sector.

Mr. Bentley: It is a source but then private pension plans still go into the private sector.

Mr. Gillies: I think that Mr. Haggerty raises a very key philosophical point in discussing PURS because when we were talking earlier I think we agreed that if a company or a bargaining unit had a corporate pension plan of a certain minimum standard that was enriched beyond what PURS had to offer, they would very likely be given the option of opting out of the PURS program.

But, on the other hand, I do not see any mechanism by which an individual who, through his own good sense or through the good sense of his financial advisers and himself made good, if you will, conservative investments that would in every sense meet the guidelines that you set for a group plan, there is no way I could see that he could be exempted from PURS.

So I really think we have to look at that key problem that what we are doing is setting up one system for employees of larger concerns or one set of protections for those persons. But we are not leaving any options open to the individual as to whether or not he has the sense and the capacity to make investments for his own retirement or whether he will be obliged to go into PURS.

Mr. Bentley: You did make that recommendation. If you go back to the interim report, what you said there was that in order to accomplish some degree of transferability, so that the employee terminating with this employer and moving to some place else, so that there was recognition of the bucks that had accrued for his service under the benefit formula or the contribution formula, whatever it is, in order to enhance his position not only would he have the right to transfer these accumulations, or a part of them to his new employer, but you also said that he would have the right to roll these over into an individual, noncommutable RRSP.

In part, through that recommendation, it would be establishing RRSPs that would not be established now or would have little likelihood of being established now, and for the individual who may have been employed throughout his working life with six, eight or 10 employers, would have the opportunity under your recommendation, to roll, to transfer over the accumulation, whether this was through the benefit formula or the contribution formula to an RRSP which is noncommutable but which could come under his direction for investment.

We did not go so far as to determine whether the investments that he could go into with that kind of an RRSP were the same kind of investments that we would permit for a pension plan under the existing rules as they are now or not. We did not touch that area.

I do not honestly think you could touch the area. I think once that takes place you pretty well have to go, as you indicated, with the individual making his own determination as to what he thought were the best investments for him at this particular time, and as he could see his own future.

Mr. Gillies: I think under that recommendation, though, he only has that right at points of termination.

Mr. Bentley: That is right.

Mr. Gillies: I think the scenario that Mr. Haggerty and I see is a fellow who, with two other people, works in a carpentry shop, a small concern of their own and they had for years made their own investments of a specific kind which may well fit within the guidelines that you would set for a larger concern.

I guess the concern then is that now PURS comes in and you are going to say to these guys, X amount of the money that you have earned vesting yourself now has to go into PURS or if you want to continue to make comparable investments yourself, it is going to cost Y amount more. I get that as the concern, not necessarily at points of termination but during the course of the time they are involved in that working concern of their own.

12 noon

Mr. Bentley: I think that is a very good point and something that I neglected--actually forgot about. There are in existence now what are called--I am not sure whether they are legal or not under the Income Tax Act but they do exist--where the employer provides the conduit for you as an individual employee to make contributions into what is called a group RRSP.

In other words, all the employer is doing is providing the vehicle. He deducts the money off the top of the your pay cheque because you have indicated to him, "I want $100 a month taken off and put into my RRSP." The employer provides the vehicle. The money then flows for those employees into each individual RRSP owned and controlled by each individual. Some may be contributing $50 a month, others $250, whatever they can afford. It is possible that kind of arrangement could be materially affected by either.

I have a loose tooth in the front. I was supposed to see the dentist three years ago and the damned thing is going to fall out one of these days, so if I whistle it is because it flips back and forth.

Yes, it could materially affect that kind of a program: increases to CPP, increases through a PURS program.

The problem we have in that area is we know these kind of arrangements exist, the so-called group RRSPs, but we do not know, because there is no way of measuring, how many employers and employees utilize that particular vehicle at the present time. All we know is that in Canada so many dollars flow into individual RRSPs regardless of whether you make the investment directly or whether you use another vehicle which is a conduit for getting your

money into your own RRSP. I don't know of any way of getting that kind of information. So there is bound to be an impact on those kind of programs in existence, but to what extent I could not tell you.

Mr. Gillies: Just to conclude the thought I had, Mr. Chairman, I think this is the concern I have as we address this coverage problem. There are people who are currently not covered by the private schemes who need pension protection when they retire. I am darned if I know what it is at this time. I think a lot of them are part-time workers, a lot of them are people who have been through a number of jobs and have not held any of them longer than three or four years or any number of types of people whom we have to try and help as best we can. At the same time I don't want to see us put another mandate at a level of contribution on those who are quite capable of taking care of planning for their own retirement and doing it now. I am just wondering how we attack that whole problem.

Mr. Bentley: The only thing I can say to you is this: thank God I ain't going to be here when you set it up.

Mr. Haggerty: That bad, is it?

Mr. Bentley: It is horribly complex.

Mr. Williams: Mr. Chairman, it seems clear to me that if the direction we move in is not supportive of an expansion of the CPP, but rather setting up one of these two optional supplementary programs, either PURS or relying totally on the private sector, in either case the element of mandating has to prevail. I suggest to you that in a sense if we go to the option of the private sector the mandating would have to be greater there than in the implementation of a PURS program.

If responsibility was being left with the private sector, I think there would have to be very strong and clear guidelines and controls laid down to ensure that the private sector could operate effectively and provide the minimum supplementary programs that would be needed to act as the equivalent support program that the provincial universal retirement system was designed to provide.

While Mr. Gillies suggests that the element of mandating would not be necessary for those who already can afford the programs and are taking advantage of those programs available in the private sector, nevertheless I think if that would be the sole supplementary support program, it would have to be looked at not only in that context but as setting certain minimal criteria or standards to which all of the workers in our society would have to be subject.

As I mentioned earlier concerning the analogy to the compulsory auto insurance, in the same sense the insurance industry would have to be subject to a new government vehicle that would make it mandatory that pension coverage be made available and be provided to our society at large within this province.

I do not minimize the complexities that are inherent in implementing that type of program, which Mr. Bentley has referred to time and time again. I think it can be achieved if that is the route we decide to go, but certainly it would have to be very rigidly controlled to ensure that the private sector followed through with the initiatives that might be provided to them with such a decision from this committee.

Mr. Chairman: I guess that any one of these programs--

Mr. Bentley: I just have to agree with you, because no matter which route you determine as that which you think will cover, first, the greatest number of people given a reasonable level of income replacement after a reasonable period of time in the labour force in one of the programs--these are the two major things you are looking at--any one of the programs you think is the best to provide that, it will be a complex job. I do not know how the hell you can make it anything but complex.

Mr. Williams: Anyhow, we are confident you can meet the challenge, Mr. Bentley.

Interjections.

Mr. Bentley: Could I just mention something to this committee? I am sorry I missed your debates; I was basking in the sun when you were before the Legislature. Through your interim report you have caused the pension commission to get off its derrière and start looking at all of the things that you have recommended; looking at the various aspects, the implications of the recommendations that you have made, however limited at the present time, with a view to what legislative changes will have to be made in Ontario in the future and how we can talk to the other jurisdictions about that.

I think that has in itself been a major victory of the select committee: You have made a few of us get off our fat behinds and start working and start thinking--

Mr. Chairman: Well-tanned behinds too.

Mr. Bentley: I did not wear a bikini.

I have also spoken in Montreal, Quebec, Atlanta, and a number of places about the report of the select committee, and in the main the comments that I have received have been quite good. Naturally I can find you dozens of people who will disagree with some of the recommendations, but in the main the recommendations have, I think, been received by the industry as being reasonable, workable and, to a great degree, equitable. That, to me, was a pleasure.

The first bunch I tackled was the Americans in Atlanta. I fell flat on my face, I am sorry to say. I made the worst speech I ever made in my life because I was scared to death.

Mr. Chairman: I am wondering if this would be an appropriate time to adjourn until two o'clock.

The committee recessed at 12:11 p.m.

SELECT COMMITTEE ON PENSIONS

REVIEW

Wednesday, JANUARY 6, 1982

Afternoon sitting

SELECT COMMITTEE ON PENSIONS

CHAIRMAN: Taylor, J. A. (Prince Edward-Lennox PC)
Brandt, A. S. (Sarnia PC)
Cousens, D. (York Centre PC)
Cureatz, S. L.¿ Deputy Speaker (Durham East PC)
Gillies, P. A. (Brantford PC)
Haggerty, R. (Erie L)
Jones, T. (Mississauga North PC)
Mackenzie, R. W. (Hamilton East NDP)
McClellan, R. A. (Bellwoods NDP)
Riddell, J. K. (Huron-Middlesex L)
Van Horne, R. G. (London North L)

Clerk: White, G.

Researcher: O'Mara, J., Legislative Research Service

Consultant:
Bentley, W., Public Trustee

LEGISLATURE OF ONTARIO

SELECT COMMITTEE ON PENSIONS

Wednesday, January 6, 1982

The committee resumed at 2:11 p.m. in room No. 151.

REVIEW
(continued)

Mr. Chairman: While we are waiting for a few more members to arrive, I could read into the record the exhibits that are now in your binders.

Exhibit 114: Letter to the chairman from Mr. William H. Pudas of Thunder Bay, dated October 19, 1981;

Exhibit 115: Letter to chairman from G. M. Devlin, executive vice-president, Canadian Life and Health Insurance Association, dated October 29, 1981;

Exhibit 116: Letter to the chairman from Mr. A. J. Campbell, Index Now, dated October 24, 1981;

Exhibit 117: Submission from the Ontario Teachers' Federation;

Exhibit 118: Submission from the Federation of Women Teachers' Associations of Ontario;

Exhibit 119: Letter to the Pension Commission of Ontario from J. E. Trimble, company benefits manager, Eaton's, dated November 27, 1981;

Exhibit 120: Letter to the Treasurer of Ontario with copy to the chairman, from V. R. Denholm, manager, Ontario division, Canadian Manufacturers' Association, dated November 27, 1981;

Exhibit 121: Letter dated December 3, 1981, to the chairman from Stan and Dena Sugarboard, co-chairpersons, Development Education in Action;

Exhibit 122: The committee research officer, Recommendations in the Haley Commission Report on the Select Committee's Interim Report 1981;

Exhibit 123: Pension Reform for Women, a discussion paper by the Canadian Advisory Council on the Status of Women, December 1981;

Exhibit 124: Post-Retirement Pension Adjustments--Alternatives for Inflation Protection, the Association of Canadian Pension Management, December 1981;

Exhibit 125: Letter dated December 14, 1981, from chairman to the Honourable Monique Bégin, Minister of National Health and Welfare;

Exhibit 126: Letter dated December 22, 1981, to chairman from Mr. Ed Tamagno, special adviser on income security, office of the Ministry of National Health and Welfare.

Those are the exhibits that you should have in your binders. We have now distributed some further material which you should have with you. One is Comparison of Canada's and 15 Other Countries' Pension Systems, which Dr. O'Mara, our research officer, has been good enough to assemble and distribute. That saves many thousands of miles of travel and many thousands of dollars in expense.

We also have assembled the Toronto Star pension series, December 15, 1981, to December 17, 1981, in three parts. Everything is serial these days. That has been distributed for your information as well and edification.

You have also assembled comments of the Honourable Monique Bégin on pension issues. That has been put together as well by Dr. O'Mara, the research officer from the legislative research service. You will see that document with an executive summary which may be of some assistance to members of the committee.

There is also an assemblage of what would appear to be newspaper reports on the Ottawa green paper on pension reform, again put together by Dr. O'Mara, who has been obviously working very diligently on behalf of the committee. There have been some comments, as you know, in connection with the timing of that green paper, both yesterday and again by Mr. Bentley this morning.

You should have, as well, the material that has been assembled and entitled The Honourable Frank Miller's Speech to the Financial Executive Institute's Pension Conference. I believe there is some newspaper coverage of that particular address attached as well, again assembled and distributed by Dr. O'Mara.

Yesterday you had the material entitled Recommendations on the Haley Commission Report and the Select Committee's Interim Report, 1981, again put together by Dr. O'Mara, and which he reviewed with the committee yesterday morning.

Mr. Bentley is anxious to get down to the particular subject matter of the Haley commission report and the recommendations in regard to the Canada pension plan. If we could focus on the Canada pension plan this afternoon and limit our discussion as much as possible to the Canada pension plan and Mr. Bentley's comments, then we would be better equipped to proceed further with this matter when Mr. David Stouffer, the senior budget adviser on the pension policy unit from the Ministry of Treasury, joins us tomorrow morning.

Mr. Williams: Mr. Chairman, just before Mr. Bentley proceeds with the task at hand, coming back to the exhibits, exhibit 130 is the comparison of Canada's and 15 other countries' pension systems. The committee as a whole appreciates the quick response to the matter raised this morning as reflected by the production of this exhibit this afternoon by Dr. O'Mara. I am wondering if we could flesh out this statistical material, which is copious, with the paper that was given on this subject at the

conference which I referred to this morning. I cannot recall, but it seemed to me all members of the committee were invited to attend that conference. I do not know how many of us took advantage of that opportunity, but there were a number of issues discussed at that conference that were most helpful to the task which we are about, and certainly the paper that was given on this particular subject relates to exhibit 130--the systems in other countries.

It would be most helpful because it puts some flesh on the statistics and would give us a better understanding of what is happening socially and economically in those countries as a result of the implementation of those programs, and would give a better appreciation of what the statistics really mean. Could we get that information in due course? I understood they were going to publish the papers and the speeches which were given at that conference.

2:20 p.m.

Mr. Chairman: If you look at the executive summary of that particular assemblage, you will notice that it states, "The material in this report was extracted from the Financial Executive Institute's report."

Mr. Williams: In other words, their conference--

Mr. Chairman: Canada at the Pension Crossroads.

Mr. Williams: Anyway it was 1978.

Mr. Chairman: Then it goes on. The data offers comparison to Canada and 15 other countries' pension systems and it mentions those countries. It may be that the committee would be interested in having a briefing session on that by someone who might have a working knowledge of it, if that is what you would like.

Mr. Williams: No, it was the paper that was given specifically by this gentleman and his name still escapes me. I meant to check it at noon hour. His whole presentation dealt with this singular issue.

Mr. Chairman: You are just seeking the--

Mr. Williams: I suggest we get that paper and look at that along with this exhibit, and we may want that further reinforced by other information and perhaps presentations before this committee, but as long as we start it with that paper--

Mr. Chairman: I am sure Dr. O'Mara can seek out that particular paper and we will have it distributed so that we can study that comparison in more depth. Then if you wish a further in-depth overview and briefing on it, I am sure we could bring someone before the committee.

Mr. Chairman: Mr. Bentley, are you ready to proceed?

Mr. Bentley: Do you want the truth and nothing but the truth? The answer is no, I am not ready.

Mr. Chairman: I have a maxim: admit nothing, deny everything and demand the truth, so I am demanding the truth of you, Mr. Bentley.

Mr. Bentley: Mr. Chairman, since what you are concerned with this afternoon, as I understand it, is the royal commission recommendations with respect to Ontario and the CPP, I spent my noon hour chasing through a number of things. If you want the truth, I think it is well laid out in the recommendations and in volume five.

To go into detail, Mr. Chairman, would be very difficult for me because you have to keep in mind that even though I work in the pension field I am not the real expert on the CPP with respect to this. Yes, I understand its implications with private pension plans and how it operates, but the financial implications for each of the jurisdictions who have a part of the Canada pension plan properly belong to the governments of the various jurisdictions to deal with.

It is a very important area and tomorrow morning I think you are going to have a proper expert before you who can deal with the funding aspects as they relate to government financing, federally-provincially, and changes in funding arrangements. In other words, the effects on provincial financing of increasing contributions without concurrent increases in levels of benefits; increases in levels of benefits which naturally lead to increases in contributions. All of the other things are not really something that I can deal with other than more on the periphery rather than being directly involved in it because, as you know, my field is primarily into private pension systems.

What I would suggest to you is, Mr. Chairman, if it would be of help to the committee, to go through the recommendations that are contained in the summary report, and if I can, to be able to give any comments that I may have personally or feel that I should bring to your attention with respect to any of the recommendations that have been made by the royal commission.

Mr. Chairman: As long as that fits within the framework of the truth, Mr. Bentley, I think that would be quite acceptable.

Mr. Bentley: I am doing my damnedest to weasel, Mr. Chairman. you know perfectly well I am.

Mr. Chairman: I think we should do that, if you would care to commence.

Mr. Bentley: If you all have your royal commission report: In part two, on page 24 they start with recommendation 24. We can go back to some of the others afterwards, but I think that is the proper place to go.

One of the determinations that you made in the interim report was that you believed the Canada pension plan should be funded basically utilizing the principle of pay-as-you-go funding with certain limitations to that; in other words, as the royal commission has recommended, that the fund should be maintained at least to satisfy twice the year's benefit and three years for the

administrative costs. I think this was pretty much accepted in your interim report.

You did not go beyond that. You did not consider future funding other than general discussions, as I recall the discussions, as to whether there should be an immediate increase in the level of contributions to cover, as some people indicated to you, the baby boom which would hit somewhere around 2005, and whether you should build a fund which would adequately look after that without sharp increases in costs, or whether this increase in costs should be phased in over a period of time.

One of the things the royal commission did recommend in recommendation 26 was that there should be a phasing in of the costs to approximately pay-as-you-go rates; in other words, there will be a continual assessment on a pay-go basis, so that costs of the plan would be phased in as increases are anticipated.

In other words, as the plan becomes more mature, costs are anticipated, the increases should be phased in rather than to have one immediate jump now and another immediate jump say in 1990 and another one in 2005 or whenever. The whole process that they felt reasonable was to phase in the increases over a period of time and which, in their view, should be sufficient to keep the Canada pension plan completely solvent in the foreseeable future, looking as far ahead as 2050.

If you go to volume five, you will see the basis for the recommendation, the rationale behind it, and they did look at a number of situations, everything from full funding for CPP to strict pay-as-you-go funding. I think they set out pretty reasonably in the whole of volume five the rationale behind each of the considerations and, of course, the reason for their choosing the methods they did recommend and are recommending.

2:30 p.m.

What I cannot tell you is this: I do not know for certain which is the most viable method for funding of the CPP. It is my belief that the recommendations with respect to funding--in other words it should be a pay-as-you-go with certain safeguards built into it which they have recommended, and I doubt if we need to go any further than that.

However, you can go out and find 10 people on the street who will argue with that position and will say that you should have at least partial funding, that you should be looking forward to this kind of a situation, that, for the impact of the people from the so-called baby boom of the 1950s who will be retiring, we should have a cushion built in there, which is really saying that you would be partially funding from now forward so that you would not have a dramatic increase in costs at that time.

This then leads to the position that you would have an increase in costs from now forward to build up this so-called fund so that it would be in a position to absorb those additional costs when that situation takes place, when you have the heaviest period of retirement that they can foresee just because of the so-called

baby boom after the Second World War. That is something I think you will have to take into consideration and that is again laid out in volume five.

The concept of full funding, which really means that you are going to cause the CPP to be funded the same as you would require funding from a private plan, does not to me have great merit in that--and this is my major argument against it--government will exist in some form because society will demand that it will exist in some form in perpetuity. A business does not have that and a union does not have that. There is no other business I am aware of that would have that same feature.

So if you are looking at a private plan, you are looking at the setting aside over a very short period of time compared to the time you could expect a government to be in existence. You are looking at a very short period of time in which to accumulate the moneys necessary to buy the benefits for people when they are eligible to receive them. That is a short period of time compared to the life of a government.

I am not talking about the political life of a government with a change from one party to another party or anything of that kind, but society demands some method of ensuring that we get along reasonably well together, which demands a government. With that concept, I do not see that we have any need to build up a fund on a full funding basis for the CPP because government can adjust to changing economic and social circumstances as it is necessary to do it and can live surely within its means, even on a pay-as-you-go basis.

Mr. Williams: Mr. Bentley, I do not have volume five with me. I cannot recall offhand whether the pay-as-you-go proposal, as set out in recommendation 26, as detailed in volume five, applies the criteria set out in that recommendation, that is, the phasing-in cost based on the six-year advance concept with the contingency fund at all times being equal to twice the year's benefit and administrative cost payout three years in advance. Were the calculations, the examples set out in volume five based on that formula? I presume they were because that is the recommendation they made. I am just trying to recall if that is the case.

Mr. Bentley: The details are in the statistical volumes, nine and 10.

Mr. Williams: Using that formula?

Mr. Bentley: Using that formula; I have not looked at those volumes for months.

Mr. Williams: It is a while since I glanced at them. I could not be sure, but it was my recollection that formula was the basis of their calculations and the cost determinations and illustrations that they made.

Mr. Bentley: I recall in the report also, Mr. Williams, they have A, B, C, D, E and F. I think it was the province C method they chose, as I recall.

Mr. Williams: Yes, that is right. Recommendation 28.

Mr. Bentley: That really was the pay-as-you-go basis, where there is a certain level of surplus really being built into more payout over the next two years and a reimbursement of cost for the next three.

Mr. Riddell: I know you are going to have a lot more to say about this, but before we go any further I kind of sense from listening to you this morning and for part of this afternoon that the route this committee should be giving preference to is probably the Canada pension route, if we are going to make pensions more adequate. Maybe I am reading you wrong, but of all the options which are available to us, the one which I feel you have leaned most heavily to is probably the Canada pension program.

Mr. Williams: I do not think I was at that meeting.

Interjection: That is what I heard him say.

Mr. Bentley: It is a matter of interpretation as to how I weaseled it.

Mr. Haggerty: He was being honest.

Mr. Riddell: I am sure this committee will, no doubt, come to that same decision. Maybe I am reading something that is not there.

Mr. Chairman: Mr. McClellan is jubilant at that remark.

Mr. Riddell: If that is the case, and being that we are dealing with truths, honesties and what have you, if we decide to go the Canada pension route, do you feel that the provinces, such as Ontario, which are indebted to the Canada pension plan--

Mr. Haggerty: For how many billions?

Mr. Riddell: For Ontario, I think it is $17 billion. We are talking about contingency funds and about increasing contribution rates and what have you. Do you feel that the provinces should be obligated to repay the money they have borrowed from the Canada pension plan so that we start from the beginning when the Canada pension plan was first initiated instead of starting now?

Let me give you an example. Let us say my father has been farming and is indebted to the bank to the tune of $500,000. I come along and I want to take over that farm. That farm, as it stands today, is going to be my pension plan. Should I expect the bank to say, "We will wipe out your father's debt and we will start from here with you?" It really bothers me to think that the Treasurer (Mr. F. S. Miller) in a statement he made indicated that it is highly unlikely the province will repay the debt it owes to the Canada pension plan.

I am asking you, if we are going to go the route of the

Canada pension plan, do you feel we should be getting that money back into the fund which the provinces owes to it and then carry on from there, or are you saying we should start fresh, just liquidate that debt, and start from this point in time?

Mr. Bentley: You have me, and I am not going to weasel on this one.

Mr. Chairman: A yes or no answer.

Mr. Bentley: You have me at a great disadvantage. Number one, I know what I think, but I do not know and I am not privy to determinations which are made by any Treasury department of the federal government or of the provinces or anything else. The financing of a government is something I cannot comment upon because I just do not fit into that kind of picture. With respect to my own view as to the repayment of this so-called indebtedness under the CPP, provided that the level of contributions can meet the level of anticipated payout in the future, that is something, and really the only thing, that would concern me.

If in order to meet that level of benefits, if it happened to increase unduly and there had to be a draw back on the provinces for interest or for part of the principal, I do not think even that would bother me, provided in the long run I felt satisfied that the economy of Canada, that is, the contributions of employers and employees, continue to support it in the way that is recommended by the royal commission in recommendations 24 plus. If that condition is met, then I would be satisfied that the redistribution of income on those bases is reasonable, meets the social criteria and does not unduly upset the economic criteria.

It is different, I realize, to the description that you used with respect to an individual. But it does not bother me if society has to pay for something on a continuing basis and does not have to set aside tremendous amounts of money, which really are surplus moneys, for the purpose for which they were intended. That is my own personal view and it is not shared by too many people that I am aware of.

Mr. Haggerty: If I interpret what you said then, suppose each province took the attitude that the Treasurer is taking when he says, "What is $17 billion? It is just a drop in the bucket." That is one of the reasons the Canada pension may be almost bankrupt.

You talked about the pay-as-you-go policy. If I interpret that right, you are talking about the Canada pension as something to which you contribute and get back. If the fund is short-funded by $17 billion, that means there is less in the kitty to pass along to the contributors at the time of retirement.

Mr. Bentley: I know everybody is talking about the intergenerational transfers and all the rest of it, but I am not certain in my own mind, when society is looking at an income replacement program such as the Canadian pension plan, that it has to be concerned with that. I know it is an issue that is played up,

the talk of the bankruptcy of the CPP and all the rest of it. It is an issue that is played up in the newspapers.

Again, if I read volume five in the Ontario royal commission report, their rationale, I have to find, in my own view, with respect to this is an acceptable one both from the social and from the economic viewpoint. But where I fall down, and I have to tell you this frankly, is I do not know the intricacies of the financing arrangements between the provinces and the federal government with respect to the relationship of contribution flowback from the CPP and how it is utilized by any particular provincial government. I do not know and understand that because I have never been in that particular field. But as far as the social effect is concerned, the utilization, in my view, is an entirely reasonable and realistic program to provide income replacement without additional heavy costs at any one particular time.

Society has, in my view, adapted to any number of situations, from a very extreme situation of wartime to a very extreme situation where everything is on the up and up, where the economic circumstances are such that nobody is suffering anywhere. We have gone those routes and we have survived and society has survived. I feel that the Canada pension plan is--

Mr. Haggerty: So you say there is a benefit if we go this route?

Mr. Bentley: I am saying there is, in my view.

Mr. Haggerty: In your view. What happens when you get into the area of the investment fund return, when you get into the private sector with the provincial universal retirement system? What happens in this particular area where there is no given amount of revenue that can be generated from this to the private sector? How much will remain in the pension scheme?

Mr. Bentley: I would ask you another question then. Again, I do not know of any economist who agrees with me. It seems to me that in our society undue emphasis is placed on capital formation for investment purposes, but you can invest $1 million and if you have not got a damned market for that product you are going to make, your $1 million is down the drain.

You are looking at a very large segment of the population which is forced into retirement because of an age condition, and really no other condition. That is the mandatory retirement age and that is something I will not get into now, but you are talking about 10 to 12 per cent of the population who will be spenders, not savers, and the purchase of the additional refrigerator is made easier if the individuals who are forced out of the labour force do have adequate and reasonable incomes. To me that is a balancing factor all the time.

I know a lot of people do not agree with me, but as long as I can see that society now, through the cost impact and as long as that is kept reasonable, can ensure people who are forced out of the labour force the ability to spend even a little bit beyond the

bare necessities, housing, food, and those kinds of things, then our economy is bound to be a little bit better off.

Mr. Haggerty: I always had the impression when they came in with the Canada pension plan, for example, that there was going to be sufficient funding there that the government could use for certain projects that were earmarked and one was housing. We have a program set up there that if the person contributing to the pension fund wanted to build a home or something like that he would have a market where he could obtain the money to build it and borrow on it. But that has not come through and this is what bothers me most when you are talking about the private sector giving in to the pensions.

An example was set by the Treasurer, who said, "Hell, we don't have to pay this $17 billion back." I just see it opening the door for the private sector to take the same attitude, to say--

Mr. Bentley: Let me pose another question for you to think about. At the present time, the net cash flow in Canada to the private pension system is better than $6 billion a year in new money.

One of the things that I notice very much--because all pension plans have to report to us that they are conforming with the investment requirements of the Pension Benefits Act. One of the areas that I am finding constantly is where are we going to invest this cash flow that we have now, coming in through contributions and through the interest accumulations on currently invested money?

There is a searching in Canada for investments now, I think, of existing pension fund moneys and I am not too sure that if we threw--and this bothers me and I do not know the answer to it, but it does bother me--let us suppose that we threw in $2 billion or $3 billion more into the private sector through the Canada pension plan or whatever; can that be readily absorbed by the industry? Can it be readily absorbed into--

I have not seen the answers to those questions yet. But I hear all the problems, and I do not know whether they can or not.

Mr. Riddell: But to get back to my concern, Mr. Bentley, do you think it is right that the contributors up to this point to the Canada pension plan, and those who will be contributing as time goes on, are going to be asked to make a far greater contribution by virtue of the fact that there is a deficiency of so many billions of dollars in the fund which was not of their doing?

In other words, if you were a member and had to explain this to your constituents, how would you explain that to them? How would you tell them that one of the reasons they are going to be expected to pay a greater contribution rate is because there is a deficiency, in Ontario let us say, of $17 billion now in the fund, due to the fact that the government chose to borrow that money which they have no intention of repaying?

It is something that I do not know how best to explain to them. How would you explain it to them? Would you just simply say,

"Well, if the government pays that back into the fund, we are going to have to turn around and tax you more in order to be able to make that payment"? Is that the explanation?

Mr. Mackenzie: They would have to borrow the money somewhere else then.

Mr. Brandt: It is true.

Mr. Haggerty: You are damned poor managers over there.

Interjections.

Mr. Brandt: Mr. Chairman, could I ask a supplementary?

Mr. Bentley: I am glad I do not have to answer that.

Mr. Chairman: Gentlemen, we are getting embroiled in the same arguments that your finance critic, Mr. Peterson, has raised for a number of years and which I have had the opportunity to read in Hansard. In fairness I think maybe someone from Treasury might be in a better position to answer your queries than Mr. Bentley. I say that with deference to Mr. Bentley's skill in this field.

2:50 p.m.

Mr. Haggerty: Let's have the minister here then.

Mr. Chairman: This matter has been broached by the committee previously and I am sure we can raise it again because I understand your concern, Mr. Riddell. I don't think you have really had a satisfactory explanation to your query.

I would hope that any increase in premiums would not be due to government piracy--if I can put it that way--in regard to the pension plan because that is precisely the accusation you have made--that it is really government confiscation or theft of those funds. I don't think that is entirely accurate and I don't think any increase in premiums will be due to the borrowing of those funds. However, I am sure we can get an explanation of that.

I think what Mr. Bentley has done in comparing the Canada pension plan system of funding with the private sector plans is say here, in terms of the private sector, they have to be actuarily sound because companies come and go, individuals die and you cannot always guarantee the economic success or buoyancy of the commercial corporation. Is that not so, Mr. Bentley?

In regard to government, government goes on forever in one form or another and therefore there is that continuum. There is one aspect--am I correct so far, Mr. Bentley, in summarizing what you said?

Mr. Bentley: That is right.

Mr. Chairman: There is one aspect of it though that one should not take for granted and that is the economic success of government because governments too can become bankrupt. We are not

used to that maybe in this hemisphere except maybe at the municipal level, such as New York and others, but I guess it is possible for a government to become insolvent as well. I suppose maybe Poland is an example of that problem.

Supposing we leave that particular repayment problem for the Treasury people.

Mr. Riddell: I would like to get an answer because, when I was first elected, what I told my people was that I would keep them apprised of what was going on within government circles and I intend to. I also intend to get back to them with some kind of an answer as to the explanation of a $17-billion deficiency in the fund which belongs to the contributors to that pension plan.

I am going to get back to them with an answer. I am raising this. We all have general mailings. I am honest with my people. I bring this out to them and when they come back to me asking, "Why is it that a government can borrow from a plan containing funds that belong to us and not repay it and now they are coming to us and asking for a higher rate of contribution?"

I simply have to get back to them with an answer and I intend to. Therefore I am going to get an answer either from Mr. Bentley or someone on this.

Mr. Williams: Mr. Chairman, on that point, seeing as Mr. Riddell wants to be absolutely truthful with his constituents, he should point out that at this point there has been no default in payment of any of those funds, that none of the principal due thereunder is not repayable as of this time. Up to date the provincial government has lived up to its contractual arrangements with the federal authorities with regard to repayment of these funds. Your concern is based on a hypothetical situation.

Mr. Riddell: On the Treasurer's statement that it is highly unlikely that the money will be paid back, if he wants to come and make a statement and say, "Yes, if we go the Canada pension route the province will be repaying that fund," then fine.

Mr. Williams: There is no deficiency in the fund at this point as a result of nonpayment of repayment of funds as you alleged in your statement. I just want to set the record clear.

Mr. Riddell: There is $17 billion that has been borrowed from the fund by the government.

Mr. Williams: None of them is in arrears.

Mr. Chairman: Mr. Brandt, you had a supplementary.

Mr. Brandt: Mr. Chairman, to Mr. Bentley on this same point: Is it not correct that every province in Canada is effectively in the same position of having borrowed from the fund with the exception of the Quebec pension plan, of course? I was led to believe by one statement that I read that there is an east-coast province, I forget which one, that is making some attempt to do what Mr. Riddell was talking about--namely, to pay a portion of it

back or to reduce its indebtedness to the CPP at this particular time.

The fund was set up essentially with the purpose in mind that is being exercised by Ontario at the moment--namely, to borrow from that fund to provide services for the people of Ontario. If Mr. Riddell is going to get back to his constituents, I hope he will add that things like hospital beds, roads and various other services are funded from that very borrowed money that we are talking about paying back now.

Mr. Riddell: Tell that to the people who are going into hospitals, Andy. Did you go to some of these hospitals during the festive season and see what has gone on? It is just pitiful.

Mr. Brandt: I thought I had the floor, Mr. Chairman.

The only point I wanted to make was if there is an identifiable shortage of certain services in Ontario, which is brought to light quite frequently by certain members of the Legislature, then they had better not be so obsessed with the payback of the so-called deficit or the unpaid money to the CPP, because if you accelerate that repayment plan in some way to reduce the indebtedness, then that is going to take away from the very services that you are talking about expanding time after time in the House. You cannot have it both ways I guess is what I am saying.

Mr. Riddell: Why is government any different from any other business?

Mr. Brandt: It is quite a bit different.

Mr. Riddell: If any other business owes money, they have to pay it. Why shouldn't the government repay money that really does not belong to them?

Mr. Brandt: Through you, Mr. Chairman, I think Mr. Williams explained that quite well. We are not in default of payments to the CPP. We are paying as we go along. The fund is being exercised in quite the way that it was originally set up to be exercised; namely, as a vehicle for government to get money to provide services to people. It is providing that particular service.

Mr. Chairman: There is a conceptual problem that Mr. Riddell has legitimately and that he wants an explanation for. I am sure the Treasurer can provide--

Mr. Riddell: The point I am simply making is that the people are going to be asked to pay a higher contribution rate towards the Canada pension plan, part of the reason being that the money that is supposed to be in that fund is no longer there.

Mr. Chairman: That is not my understanding of it. I do not think that is correct.

Mr. Riddell: Well, $17 billion has been borrowed from the fund and the fund is starting to dry up, so they say.

Mr. Williams: None of it is based on default of repayment, none at all.

Mr. Brandt: But for reasons other than borrowing of the money. It is demographics; the problem of expanded numbers of people who are getting to a pensionable age is causing the problem with the fund more so than the borrowed money, as I understand it.

Mr. Bentley: Of course, that was anticipated right from the beginning.

Mr. Brandt: Exactly.

Mr. Gillies: The fund is not actuarially sound.

Mr. Bentley: It is actuarially sound on the basis on which it was set up, which is a different thing from the concept of actuarial soundness. I have been in the business for 18 years, and I do not know what actuarial soundness is. Nobody has ever been able to explain it to me.

What you are concerned with is the ability of the fund to make the payments when they fall due. If the CPP on a pay-go basis can meet that, then it is meeting its social objectives. One of the things that bothers me in the concept of pensions--Mr. Chairman, I have to get this in--is that a pension is not necessarily provided just by the bucks that an individual may contribute. It is, again, a pooling of resources by a number of people. This applies equally to Canada as a whole or to a private plan. The pooling of the money and the contributions as they go in are supposed to be sufficient to pay the benefits as they become due and payable to people who qualify for those benefits. That is the principle on which a pension plan is developed.

3 p.m.

When we take a look at an individual employer, we know that the average lifetime of an employer is very short. Historically, Mr. Williams, somewhere about 17 years is the average lifetime of an employer. Some of them will last 75 years; others will last six months. When you are looking at that, what you are concerned with a private employer is that at the end of the time when that employer may disappear you are shooting towards having sufficient money to provide all the benefits that have accrued for service for all employees who have been members of that plant, whether retired, active, deferred, or whatever their position is at the time that plan ceases to exist. That is one principle for funding. When you get to the concept of actuarial soundness, that is what you are aiming for in a private pension plan.

In government there is a different situation. The lifetime of a government has been throughout our history in some form or another. It is not the same thing. What an individual is entitled to is the benefit that he, as a contributor, becomes entitled to by virtue of his service and by the fact that he has made contributions to the plan. Whether they are sufficient to buy his own benefits at this moment in time really, in my view, is not awfully material. It is the accumulation of the pooled funds for

all people so that at the time that anybody is eligible to retire there is sufficient money flowing into the fund to be able to provide those benefits.

I think that is substantially what the royal commission is saying when it says it thinks that a pay-as-you-go situation is sufficient. So we have to adjust the levels of contributions to meet certain economic circumstances, and these have changed considerably since 1966. Those were the original concepts of the CPP, and I do not think they have varied very much from that.

The argument you have can still be a valid one. All I am saying is that with respect to the principle of how a pension plan works, the principle it is set up to fulfil is income replacement for the individuals who become eligible to receive it.

Mr. Riddell: I will just end by saying I will bet you there are many farmers in Ontario who wish the bank would simply come along and liquidate their debts and say, "Okay, boys, start from here."

Mr. Bentley: Yes.

Mr. Brandt: That is not what happens with pension plans.

Mr. Riddell: I just fail to see why government should be conducting its business that way.

Mr. Williams: Mr. Riddell, we are not going to get Lorne Henderson involved in this meeting.

Mr. Brandt: Mr. Chairman, there is one question I would address to Mr. Bentley. Is there a province that has paid back its indebtedness to the CPP? I think I know the answer, but for the record could you advise us if you know of one?

Mr. Bentley: I am not aware of any. It surprised me when you said there was a Maritime province that was attempting to do this. I have not heard of it.

Mr. Brandt: I heard that they were making an attempt. They certainly have not paid it back, but I understand from something I had read in some of the material we have received that there was a maritime province--I do not know which one--that was making some effort to repay the indebtedness at this particular time. Whether that is true or not, I do not know.

Mr. Bentley: I do not know. You might ask Dave Stouffer that tomorrow morning. He would be the one who would know.

Mr. Brandt: The point I wanted to make, Mr. Riddell, is that Ontario is in no different position--albeit larger because it is the largest province--to any other province in Canada with respect to its relationship with the CPP.

Mr. Chairman: I do not wish to take sides on this thing, but in defence of Mr. Riddell I must say that implicit in Mr. Bentley's dissertation is the assumption that companies and

individuals cannot be depended upon as being financially sound in perpetuity. However, that assumption does not apply to government. That may be an improper conclusion. Governments, too, can be financially unsound. If that is so, then Mr. Riddell's concern is affordability on the part of government to finance a plan that is adequate. I want to put that forward because I think that is implicit in Mr. Riddell's concern.

Mr. Riddell: Thank you, Mr. Chairman.

Mr. Chairman: I am glad I clarified that.

Mr. Bentley: I wish I did know more of that area but I think you can realize in my own work I know of it on the periphery but not in detail. I don't have the detailed knowledge that you people want and that you will have to obtain from some other source.

But in my view again, coming back to the recommendations of the royal commission, I find that its recommendations are reasonable as supported by its discussions, particularly in Volume V, with respect to there being no increase in the level of benefits.

Even if you can accept recommendations 24 to 29 without any problem, I think you should take a very close look at recommendation 30 which talks of a change in the investment structure of the CPP. I honestly do not know whether that is a viable recommendation. I cannot give you an opinion, and I have thought about it quite a bit at noon. I do not know whether it is a recommendation or not.

I go back to the concept that I gave you a little bit before as to what is a pension plan. It is a method of providing income replacement simply upon the individual being entitled to receive this income replacement. This may materially assist in the financing of the CPP but I have not come to any conclusion on it. I do think that is something you should consider very seriously if you are prepared to accept any or all of the recommendations of the royal commission.

Mr. Mackenzie: In a nutshell, Wells, does recommendation 30 simply say that investments in future should be at a set rate for a set period?

Mr. Bentley: Yes, using certain measurements. I even forget what they are now but that is the principle of it. It is to bring the rate of return in line with what could be anticipated as a reasonable rate of return if you put the money on the market. It seems a reasonable thing but I do not know whether that is reasonable in government or not. That is the reason I could not make any assessment with respect to this.

Mr. Chairman: I sense that the Treasurer has indicated in the past that the provincial borrowing could be at a more realistic rate. I gather that the interest on those borrowings is less than might be expected. That is the impression that I have.

Mr. Mackenzie: What bothers me is what appears to me to have happened in reverse, if I can use the comparison Mr. Chairman.

That is the arguments we got back in the late 1960s or early 1970s across this country from Mr. Hellyer that we should raise the ceiling the Bank of Canada had on interest rates in this province, and that we should go for the short-term rather than the long-term fixed mortgages. The argument they trotted out at that time as I recall was that it would make more money available and reduce the rates. Exactly the opposite has happened across this country since. We have had the rates go up. At the time that policy happened I think the rate was about nine per cent and, in fact, the shorter term mortgages in particular had meant a hell of a lot higher rather than lower long-term fixed rates. That is in reverse, I recognize, but I am just wondering if there are dangers in a fixed policy like this.

3:10 p.m.

Mr. Bentley: I can't give you the answer. I mentioned that. I think it is something you have to consider quite seriously when you are looking at investments of CPP moneys and what you think is a reasonable rate of return they can expect. There have to be other methods of computing this, but what they are I don't know. This is one that, to me, stands out because of the ramifications of the whole situation.

Mr. Mackenzie: I'm not rejecting it myself offhand, but I am just saying it seems to me we got exactly the opposite of what we were told we would get a number of years back in terms of lifting the interest rate ceiling and trying to do away with long-term fixed-rate mortgages.

Mr. Bentley: All I know is things have changed since the concept of the CPP and what was originally set up. I think it is very likely time to review the situation with respect to the so-called rate of return on investments, on moneys lent to the provinces. What it should be, I don't know. Honest to God, I don't know. But this gives you something to start with.

Mr. Riddell: I don't completely understand the difficulties you find with this recommendation. Again, let's say that if government were going to use this money for its own purposes it should be paying the prevailing market rate.

Mr. Haggerty: Which it has not been doing.

Mr. Riddell: Certainly, if you talk to the teachers they are very dissatisfied with what has gone on in the past, but we won't get into that again. Why do you find it difficult to accept this recommendation?

Mr. Bentley: Because there are alternative methods that could be considered. I am not sufficiently an expert in this area to be able to say I concur wholly with this particular recommendation. All I am trying to say is that in all likelihood some changes should be made in establishing a so-called rate of return on investment of the CPP moneys on the lend-back to the provinces. But what it should be, I don't know. Maybe this is the best one and maybe it is not. But it is something you have to be concerned with as a select committee.

Mr. Williams: The interesting concept here seems to be the recommendation that they keep the moneys in the public sector while trying to realize a better yield applying private sector concepts and bearing in mind the fluctuations of the private marketplace.

One thing I recall in our early discussions on this one, when the Treasurer was here, was the differential between the rates if they had to go out and borrow in the private sector and the rates they are obliged to pay under the agreements with the federal authorities for borrowing these funds was not as great as was anticipated and suggested at the time. Some of us were under the impression there was a differential as high as two or even three per cent from what we would have to pay if we went out and borrowed in the private sector. The Treasurer made it clear the differential was as low as half of one per cent. So it is not really as significant as some would indicate. Yet I realize when you are dealing in not only millions but billions of dollars, even half a percentage point can be meaningful.

Mr. Bentley: I would have retired a long time ago if that were the case.

Just as a last remark, I do think you have to be aware and have to consider this as an area of concern where you are going to have to make some form of recommendation. Whether you follow this approach or develop a new one, I don't know.

Mr. Williams: I guess the way the CPP is structured as a universal national program it would be difficult to try to provide a vehicle for permitting those funds to be reallocated and directed into the private sector, rather than keeping the funds in the public domain, as has been recommended with regard to the two options we have to consider, namely, the provincial universal retirement system or private sector pension plans.

Mr. Haggerty: Doesn't the Quebec government use the Quebec pension plan now for investment into the private sector?

Mr. Williams: Yes, it has done. But again, that is--

Mr. Haggerty: So the province can opt out of the federal scheme if it wants to start its own.

Mr. Williams: That is precisely what PURS is recommending, or the other option, but that is at the provincial level. My question is whether it is realistic to suggest that the CPP could be restructured to permit that to happen in the national program.

Mr. Bentley: From my understanding, it is possible to restructure the CPP to provide for that, but whether you would be able to get agreement from all the provinces to go that route, I don't know. I would be extremely doubtful if you could, but it would seem it could be restructured. You can restructure almost anything you have devised by way of statute.

Mr. Haggerty: I don't think there would be a problem there. They are pretty well in the same bed, you might say. You may have to talk to the two western premiers out in Saskatchewan and Manitoba, but I would imagine it could be done.

Mr. Bentley: I don't know the answer to that one.

Recommendation 31 says the government should support the CPP on its present compulsory and earnings-related basis and resist any extension of coverage to unpaid workers. We talked about it this morning. Again, I don't know the answer. I am sure you can restructure it to cover it, if that is your desire. But again, I think it comes to almost a philosophical approach to the whole matter of income replacements, whether you want to extend any kind of program, whether PURS or the CPP, to so-called unpaid workers. That is a determination that has to be made on philosophical and social bases. Again, I don't know the answer.

Mr. Chairman: That might be part of a broader problem. I could draw you into concepts like negative income tax, in terms of alternatives.

Mr. Mackenzie: Surely if you accept 31, though, you accept that you are not going to make some of the improvements and extensions you want covered.

Mr. Bentley: I don't think it deals with that. It just says it should continue to be compulsory, it should continue to be earnings-related, and the government should resist any extension of coverage to so-called unpaid workers. Beyond that, they do not seem to say anything in this particular recommendation.

Mr. Mackenzie: It is the extension that bothers me a bit, because there are obviously areas where there is some concern.

Mr. McClellan: It represents a major hole in the pension system that the royal commission has not been willing to deal with, except through the existing means-tested programs. One of the things of concern to Mr. Mackenzie and me is that, regardless of whatever contributory system you put into place, whether it is the CPP, PURS or private employer-sponsored plans, it still leaves completely untouched, first, homeworkers, women who make a career in the home rather than in the work force; second, low-paid workers and, third, part-time workers.

We have talked about part-time workers a little bit. There are also the low-paid workers. We cannot solve their problems through contributory plans, through earnings-based plans. We just cannot solve their problems. They have poverty problems when they retire. We also have to be looking, I think, as a committee at how we want to deal with that group of the population, which is still 50 per cent of the female population, plus another 20 to 30 per cent of the male population. It is a large number of people we are talking about. We can't pretend the only thing we have to look at is the various earnings-related plans. The royal commission has been quite inadequate in the way it has dealt with this.

Mr. Brandt: Mr. Chairman, by way of extension, as I

understand what is being said in this particular recommendation, the commission report is attempting to make a distinction between a social welfare problem and a pension problem.

3:20 p.m.

I share the concerns that are being addressed by the members of the New Democratic Party. I think we have the same concerns about those individuals who have fallen outside of conventional pension coverage. But there is always going to be--and we have to address the reality of this situation--a need for some form of Gains, old age security or some other form of social welfare scheme that will pick up those people who do not qualify for pension coverage. I don't know at what point we draw that line, if it is 30 per cent who are outside the area of getting some form of pension assistance. But I think there is a distinction between those two groups, and those who are social welfare problems have to be addressed in a different respect from those who come under the pension category.

Am I correct in making that observation as to why that recommendation came about?

Mr. Bentley: I think so. When you are talking of an earnings-related pension plan such as the CPP you are quite correct in saying that it cannot conceivably, without tremendous changes, give the kind of coverage to the people described by both of you. If you are going to look at it, then you have to look in terms of possibly some other program which may be an adjunct to the CPP or stand on its own. I don't know what it is going to be.

One of the earlier recommendations was that in order to alleviate some of the difficulties that certain single people are having now, you made a recommendation that there should be improvements to the GIS and possibly to the Gains program. I don't know whether that is your route, but when you look at the possibility of giving all people in Canada an opportunity to have some kind of an income replacement, I don't think you can consider everything under the terms of an earnings-related pension plan. I think you are quite correct in saying it. To me both of you are going after the same thing--how do we get at some kind of coverage for those people?

Mr. Chairman: I suppose logistically it is easy to conclude that if you don't have an income during your normal working years, the years when one would be able to work, then on retirement the replacement income is zilch. That doesn't help the people very much who need help both prior to what would be conceived as the normal age of retirement and subsequent to that age. I guess we are covering two areas. On the one hand we are covering the pension area which is our mandate. There is another area of course and that is to ensure adequate income presumably prior to retirement. You are not going to solve that with a pension scheme. You are going to have to solve that with some other mechanism.

Mr. McClellan: I have one observation. The danger for me and my colleagues is that we not end up with a two-class pension

system: a first-class pension system for those who have the good fortune to be in good-paying jobs so that they can earn a good pension on the basis of a first-class contributory system, whether it is public or private, and then everybody else who falls into what I still have to call kind of a welfare ashcan that picks up the casualties who have not had the good fortune to earn a decent retirement income through their employment. This could be either because they were not employed or because they were in low-paying jobs. They get picked up on our welfare program.

I am quite optimistic that it is possible to design a public pension program that combines the best features of a contributory scheme and a universal scheme like old age security that can guarantee a level of basic adequacy and decency for everybody without having to rely on a two-class model. Anyway we can talk about that more, but that is certainly our preoccupation as we approach these issues.

Mr. Chairman: Which again comes back to what Mr. Bentley commented on, and that is the problem of basing the pension on pre-retirement income. At least, I surmise that is what it was.

Mr. Bentley: Yes.

Mr. Chairman: You mentioned this morning the position of the housewife who may not have drawn on the public services such as day care and all kinds of other services that may be partially or wholly funded at public expense. She looked after her family through extracting herself from the work force and, instead of being encouraged, complimented by getting a gold medal or mother's day card, gets zero. She might have made a greater contribution to society than someone who was out benefiting himself or herself.

Mr. McClellan: Or somebody who has worked at a minimum wage job for 40 years.

Mr. Riddell: That works both ways. There is also the farmer's wife who is the reason the farmer may have been successful in the first place, or the small businessman's wife. They run a business, the two of them are in there. She is not paid, and the farmer's wife is not paid.

Mr. Bentley: Or my wife, who said she would like to come before the select committee and tell them she had been a housewife for 40-odd years.

Mr. Van Horne: Just for the record, my wife is not paid either.

Mr. Bentley: Jim has raised that so I can go home safely and say that the chairman has--

Mr. Chairman: Except that some of us do not have that problem with the spouse's registered retirement savings plan.

Mr. Bentley: That is an income tax situation, Jim.

On recommendation 32, if I recall correctly, you did deal

with this to quite an extent in our previous meetings, but you chose not to put it into the recommendations in the interim report. I don't know if there is any more I can say about it because it seemed to me at that time everybody was in favour of that being changed in line with the recommendation of the child-rearing dropout provision.

On recommendation 33, I don't think that is out of line with the recommendation you made with respect to private plans.

Mr. McClellan: Didn't we say 66?

Mr. Bentley: Yes, you said higher than 60. You were talking of two thirds, really.

Mr. Mackenzie: To my recollection we were talking two thirds.

Mr. Bentley: That is right. So I think that is the only determination. I never had a feeling you were opposed to it. The only thing you thought at that time in your discussions was that it should be higher than 60 per cent. That is as I recall your conversations with respect to prior meetings.

On. recommendation 34, I have the distinct feeling that what they are talking about should properly be determination of, say, a court or some other body rather than a pension plan, including the Canada pension plan, to make a determination as to how credit should be split up on the dissolution of marriage while the guy is still active, or one of the spouses is an active member in a pension plan, the CPP or a private plan.

I would have to agree that, based on the few court cases that have come up in Canada, I think I will be the proverbial chicken in this area and run like hell rather than make any recommendation as to how any pension benefit credit should be split upon dissolution of marriage. There are so many factors and when you read some of the determinations the courts have made in Canada, I would be inclined to accept recommendation 34 the way it is written.

3:30 p.m.

Mr. Chairman: What you are saying is the determination cannot be made in advance universally applicable to all situations.

Mr. Bentley: That is the way I would have said it had I known how to say it in the first pace. With respect to recommendation 35, it is one you are going to have to wrestle with quite considerably, whether you take the combined PURS-CPP approach, which is one thing, whether you go for increase in level of benefits through the CPP is a somewhat similar thing, whether you determine that you would not increase the level of benefits at the present time under CPP, whether you would change the yearly maximum pensionable earnings to the average industrial wage and maintain the percentage level at its current amount, which is 25 per cent, is something you gentlemen are going to have to make a determination upon as to what your recommendation is going to be.

I think about the only thing I can promise you would be whatever your recommendation is, it is going to be wrong in the eyes of most people.

Mr. Van Horne: That is reassuring.

Mr. Bentley: That is about the only comfort I can be to you. If you recommend a higher level of benefits under the CPP, suppose you recommend thirty-seven and one-half instead of 25 per cent and you increase that from the 25 per cent of YMPE to 25 per cent of the average industrial wage, you are going to increase the level of benefits. Whichever route you take, there are going to be a number of organizations, people and so on, who are going to say to you simply that you should have increased the level of benefits to 50 per cent instead of 37 1/2.

Mr. Chairman: Mr. McClellan is already saying that.

Mr. Bentley: If you go the route of saying, "No, we will maintain the level of benefits at the current level," then you are going to have to face the objection, "What the hell, you are providing an inadequate level of income for those people currently earning less or the equivalent of the YMPE or less than the YMPE, or if you raise it to the AIW, less than a reasonable level of income."

When you are looking at this, I think what you have to look at is not just the CPP in isolation. You are looking at the whole of the income replacement programs which include, through government, old age security and guaranteed income supplement programs when they are applicable. They include, to the extent that they have to be included, all private arrangements, the private pension plan arrangements.

I do not know if you have to include something that was discussed this morning, and that is the effect on the so-called group registered retirement savings plans which now are being utilized and the ramifications, if you increase any of the levels of benefits through CPP or PURS, or however you propose to do it. I am certain that the net effect will be a transfer of benefit payments from this credit position where it is at a certain level now, and if you increase that, a concurrent level over here will tend to come down.

What the net effect will be in the long run I do not really know at this moment. If I said I knew, I would only be guessing and most other people would be guessing as well. No matter what recommendation you make, I think you must be aware that it will have certain effects on other income replacement methods that are currently in use.

Whether this is the use of RRSPs as individuals or through groups, whether it is the use of a so-called private pension plan or whatever, I think the net effect will tend to level out in the long run, but the determination then will have to be made.

If you are looking at the people in the lower levels of income throughout their working life, their wage levels throughout

their working life, knowing that income replacement of 80 per cent of $10,000 a year is not a hell of a lot to look forward to compared to 75 per cent of $25,000 a year. Since we have a hell of a lot of our people below the average industrial wage, you are going to have to look at the impact of any change and how it will affect those people as well as the people above it.

If you are looking at it from a social aspect, if you are looking at it on the basis that that is what income replacement is, if you are looking at it from that viewpoint, then I think you have to be aware of the interaction of all of the recommendations that you will make on other segments of society, other people in society because all you are really saying is no matter what change we make, it is going to be an income redistribution and nothing more than that.

Mr. Mackenzie: Can you look at the whole issue without deciding that it is an income redistribution scheme or to a large extent?

Mr. Bentley: I do not see how you can.

Mr. Mackenzie: Unless you eliminate that part of the population who just cannot afford it.

Mr. Bentley: Yes. All I can say is I think you have to look at the whole thing, which does not make your job an easy one.

Mr. Chairman: It never is.

Mr. Bentley: No. Recommendation 36: I could argue with age 65. If anybody sticks 65 in front of me, you know that automatically leads to an argument so I will let you guys argue that one out, whether it is good, bad or indifferent.

Mr. Chairman: It is certainly discriminatory.

Mr. Haggerty: What benchmark would not be?

Mr. Bentley: That is right, 60, 70 or even none at all.

Mr. Haggerty: But it is permissive now. It is flexible enough now that if you want to retire--

Mr. Bentley: It is flexible in the private sector. In government sectors, it is not so flexible.

Mr. Haggerty: Even in industry it is 35 years and out; teachers and government have--

Mr. Bentley: I am not going to get into that one because I have argued that one too many times in my life and I am not going to argue it again.

Mr. Haggerty: Somebody here mentioned Inco and they are talking about another layoff in the Sudbury basin. They are trying to encourage some of those persons who have reached 30 years service or more that they should move out now and they are trying

to give them some encouragement in areas. They are saying, "We will give you 17 weeks pay if you take it now."

Mr. Bentley: This is what I heard on the news this morning and I am waiting to see the amendments to the Inco plan covering this because I understand this was what was negotiated, if I heard the news correctly at six o'clock this morning.

Mr. Haggerty: I think they can well afford whatever scheme they come up with because they have a well-funded pension scheme there that is well-controlled, perhaps on the American side. That is the only problem.

Mr. Williams: I missed that news item. What was it?

Mr. Bentley: Since there are to be a number of layoffs at Inco, they going to use attrition I understand, and earlier negotiations of early retirement provisions are to be changed under the terms of the plan to permit full retirement after 30 years of service regardless of age.

Mr. Haggerty: It worked very well in the large layoff in 1977, particularly to the operations in the Port Colborne area. They came up with a program like this. It did not apply to the Sudbury employees. It is rather a tempting program. Many employees jumped on to the bandwagon and took early retirement. About two years after that, I think they kind of regretted they had made this move. The lump sum looked good to them. But when they got down into the general pension scheme, if they were below 65 or 60, they were just surviving on it; that's about all. I might have a look at that up in Sudbury to see what impact it had on the Port Colborne area.

Mr. Bentley: On recommendation 37, since I have never had to appeal or ever had to deal with an appeal under the CPP, I don't know whether it is a complex process. Knowing the feds, it's got to be--don't put this on the record--a complex process.

Mr. McClellan: For the life of me, I can't understand this recommendation. The CPP has one of the simplest appeal procedures, certainly of any income-maintenance program.

Mr. Chairman: Is this an outright rejection?

Mr. McClellan: No. If you persist, you will never lose.

Mr. Chairman: Is that right?

Mr. McClellan: But it's basically an appeal by correspondence, and it's very simple.

Mr. Haggerty: There is one problem area. It is the same as what it is if you want to get a disability pension through a provincial scheme. They have permanently unemployable and disabled categories. There is still some question--

Mr. Chairman: I thought we dissolved that distinction.

Mr. McClellan: Provincially. It's not a problem

federally. Either you are employable or you are not. It is a simple employability test.

Mr. Haggerty: --continuing disability.

Mr. McClellan: My own experience is you can always improve things, but relative to all the other appeal bodies we have to deal with, the CPP is the easiest.

Mr. Chairman: You mean, in terms of--

Mr. McClellan: Compared with the Workmen's Compensation Board, God help us, or unemployment insurance or the Social Assistance Review Board.

Mr. Chairman: You mean you do not have to hassle them as much. The hassle time is less?

Mr. McClellan: You do not have to hassle them at all.

Mr. Bentley: I can only presume the royal commission must have received some representations to it. I did not read this part of the royal commission report if they did deal with it.

Mr. McClellan: I am curious to know if other members have a different experience, because mine is that this appeal procedure, even if you have to go to the tribunal level, is a relatively simple, uncomplicated and hassle-free process.

Mr. Haggerty: I will be on one on Friday. I'll let you know.

Mr. Riddell: Whenever you hear an NDP member praise an appeal process, it has to be good.

Mr. Haggerty: Let the record stand.

Mr. Chairman: As with the other recommendations, it may be something we can discuss with the federal people when we meet with them.

Mr. Haggerty: It is based upon evidence. As long as they are keeping a good doctor's report there is no problem.

Mr. Chairman: It sounds to me as though there is a tremendous potential for flexibility at the federal level.

Mr. Haggerty: One of the things, if you appeal the Canada pension, is that the appellant can have a representative on the board to look after his interests and he can also have an advocate to represent him at the hearings. Maybe that is one of the good things about that. At Workmen's Compensation Board hearings you usually do not have that. You usually have somebody from the industry who sits on the side of the Workmen's Compensation Board, saying "Don't give him this" or "Don't give him that," and always putting in some objections to extending the benefit period or the disability pension.

Mr. McClellan: All our appeals have been on CPP disability, but you rarely have to go to the tribunal stage in the first place. Usually you get sorted out internally at the administrative level. If you do go to the tribunal stage, it is a very simple process, that is, you do not get all strangled in red tape and bureaucracy.

Mr. Chairman: They do not distinguish whether the disability was a result of on-the-job or off-the-job activity.

Mr. McClellan: No. It is a relatively simple adjudication. Either you are disabled and unemployable or you are not. But so too in the provincial programs, which we have watched being administered, and the process is much simpler than the Social Assistance Review Board process.

Mr. Chairman: I found that the professional social worker was a great obstruction to the--

Mr. McClellan: I have always agreed with that.

Mr. Chairman: Anyway, Mr. Bentley--

Mr. Williams: In any event, the royal commission, as a group, seems to have perceived a problem and has suggested we should perhaps try to get a clarification of what its experience has been and what the cause was for the recommendation. I am sure the recommendation was not made in a frivolous manner or without some cause.

Mr. Bentley: There has to have been representations made to them that would cause them to make--

Mr. McClellan: Sure. That is why I raised it. I am curious to know what the basis is.

Mr. Bentley: Recommendations 38 and 39 tie in with a lot of the other things we have discussed today, and I do not find them a problem for me, but they may be a problem for you.

Mr. Chairman: Any comment on that from the members?

Mr. Riddell: Carried.

Mr. Chairman: Does that complete your--

Mr. Bentley: The only other thing I can say is that every recommendation is predicated on two things, as I understand it: No changes to the benefit structure of the CPP would be contemplated, except for minor adjustments to certain things, and the funding of the CPP should be on what is called a pay-as-you-go funding arrangement with certain safeguards built in. That is the premise you have to start from and you have to listen to any arguments that take you away from that position. All the other recommendations they have made tie in with those two principal considerations that you are going to have to deal with.

With that in mind, if you are looking at levels of benefits,

changes to bring in certain categories of employees who may not be covered now, to bring into a so-called income replacement system those people who could not conceivably come in under an earnings-related program, the funding of all these things has to be dealt with in a total package. What you are looking at, again, is taking a chunk out of here and moving it over here and saying you are going to redistribute this piece of income from somebody over here to that position over there. I did not use that argument with you when you were talking about the farmer in Carleton, but it is a basic argument you have to be concerned with.

The detail that can be made available by the people from Treasury and the people you contemplate drawing before you from outside, including, I hope, people from the federal government, can give you an insight into how government has to deal with the aspects of the Canada pension plan in relation to any recommendations you are looking at yourself and are prepared as individuals to make with respect to changes in the income replacement programs we do have. This has to include the impact of any of these proposals on the existing private pension plan system. Whether you like it or not, it is there, and whatever you do and however you approach it, it will have an impact on what exists, and I think you have to understand the impact.

3:50 p.m.

Jim, I am not an expert on the CPP. I tried to say this to you. The relationship to all other kinds of programs is something I understand, but I think the other people you are calling in, particularly one tomorrow morning, can help to isolate the CPP in relation to the government of Ontario, and maybe to other governments in Canada that will look at it too.

Mr. Riddell: How nice it would be if we thought the Canada pension plan could be amended to provide adequate pensions to those people when they reach that age, starting with a fund that shows a true balance.

Mr. Bentley: I am not going to get drawn into that one, no matter what happens.

Jim, I do not know what more I can say.

Mr. Chairman: Any further comment? Any questions by the members? If not, the committee will stand adjourned until 10 a.m. tomorrow.

The committee adjourned at 3:52 p.m.

SELECT COMMITTEE ON PENSIONS

REVIEW

THURSDAY, JANUARY 7, 1982

Morning sitting

SELECT COMMITTEE ON PENSIONS

CHAIRMAN: Taylor, J. A. (Prince Edward-Lennox PC)
Brandt, A. S. (Sarnia PC)
Cousens, D. (York Centre PC)
Cureatz, S. L. (Durham East PC)
Gillies, P. A. (Brantford PC)
Haggerty, R. (Erie L)
Jones, T. (Mississauga North PC)
Mackenzie, R. W. (Hamilton East NDP)
McClellan, R. A. (Bellwoods NDP)
Riddell, J. (Huron-Middlesex L)
Van Horne, R. G. (London North L)
Williams, J. (Oriole PC)

Clerk: White, G.

Researcher: O'Mara, Dr. J., Legislative Research Service

Consultant: Bentley, W., superintendent of pensions, Pension Commission of Ontario

From the Ministry of Treasury and Economics:
Ilkiw, J. H., Senior Economist, Pension Policy Unit
Stouffer, D., Senior Budget Adviser, Pension Policy Unit

LEGISLATURE OF ONTARIO

SELECT COMMITTEE ON PENSIONS

Thursday, January 7, 1982

The committee met at 10:18 a.m. in room No. 151.

REVIEW
(continued)

Mr. Chairman: Gentlemen, I certainly see a quorum here. We are fortunate indeed to have with us this morning Mr. David Stouffer, senior budget adviser on pension policy in the Ministry of Treasury and Economics. We have asked Mr. Stouffer to join us this morning so that he could review with us the provincial universal retirement system plan.

Mr. Stouffer: Mr. Chairman, I think you had circulated to you a copy of the notes I plan to speak from. What I thought I would like to do, if you agree, is to go through those and then we can entertain questions at the end. If you have something burning that you would like to ask on the way through, that is okay.

Mr. Haggerty: Suppose we have something burning right at the first?

Mr. Stouffer: Let us save those to the end.

Mr. Chairman: It probably would have burned itself out in the meanwhile.

Mr. Haggerty: I was just thinking about the matter we raised the other day, Mr. Chairman, the meeting with the federal minister responsible for pensions. Mr. Van Horne had presented a document yesterday where the indication was that in her speech in British Columbia in October or at some time she said she had been having continuous dialogue with all provincial governments. We have a gentleman here representing the Treasury, I believe it is, and the question I wanted to ask him was, have we had these dialogues with the federal ministry responsible for pensions?

Mr. Stouffer: I think what you are referring to is the Kirby task force.

Mr. Haggerty: Yes, that is what it would be I guess.

10:20 a.m.

Mr. Stouffer: I would not describe it as being continuous dialogue. The Kirby task force has been charged with preparing the green book on pension reform. That task force has met with each of the provinces. I am not sure whether they met with Quebec or not, but they did meet with the other provinces. There were meetings back in June with Ontario. That is the extent of the contact with that particular committee, simply a half-day meeting.

Mr. Williams: With each province?

Mr. Stouffer: With each province.

Mr. Haggerty: There have not been any joint meetings with representatives of all the provinces attending?

Mr. Stouffer: Not with the federal government involved; there has been a working group of officials and finance ministers and ministers responsible for pensions at the provincial level.

Mr. Haggerty: They have been working directly with the--

Mr. Stouffer: They have been working with the pension question, but have not entered into discussion with the federal government. That working group was created by the Premiers back in August on the recommendation of the ministries of finance. All I can tell you is they have prepared their first report which does not deal with the pension reform question in any depth at all. They will be continuing to work over the next few months to complete their work.

Mr. Chairman: I wonder, Mr. Stouffer, for the record, if you could outline, even though it is federal, the composition of the so-called Kirby task force to begin with. You have indicated already that the total communication with Ontario has been some one and a half days.

Mr. Stouffer: No, half a day.

Mr. Chairman: Half a day, sorry; Who was on that task force, do you know?

Mr. Stouffer: I do not have a list of names in front of me, but it does include representatives from the various ministries that have an interest in the pension reform question. It is organized through the Ministry of State for Social Development and includes representatives from that ministry, of course. As well, it has a representative from National Health and Welfare or maybe several representatives from National Health and Welfare, Finance Canada, the Treasury Board and the Department of Insurance. There might even be a representative from Labour. I cannot remember the names. I do not have them here in front of me. I do have them back at my office.

Mr. Chairman: They are all federal people?

Mr. Stouffer: Oh yes, they are all federal people.

Mr. Chairman: Is that task force looking at something in addition to pensions per se? In other words, is it looking at the immediate problem of some people who are no longer in the work force or have never been in the work force and find it difficult to make ends meet? In other words, there is a welfare problem as well as a pension problem for those persons who have completed their term in the work force.

Mr. Stouffer: As far as I understand it, the terms of reference for that task force are fairly broad and would include

incomes to all people over age 65, certainly as a starting point. No doubt there will be discussion of federal transfer programs like the guaranteed income supplement, the old age supplement and, of course, the Canada pension plan and the role of the private sector in pension reform. It has a very broad mandate so that is as far as I can go.

Mr. Chairman: Would it be broad enough to include such subjects as negative income tax?

Mr. Stouffer: I really cannot say whether that would be considered or not.

Mr. Williams: All the members are federal civil servants you said.

Mr. Stouffer: That is right.

Mr. Williams: There are no politicians on there, no businessmen from the private sector at all, it is strictly in-house?

Mr. Stouffer: In-house.

Mr. Williams: So it is the Kirby--

Mr. Stouffer: I call it the Kirby task force.

Mr. Williams: Who is Kirby? I presume that is the chairman?

Mr. Stouffer: Michael Kirby.

Mr. Williams: Michael Kirby and he is the--

Mr. Stouffer: He was the secretary of--it was just changed a few days ago--essentially the deputy minister in the Ministry of State for Social Development.

Mr. Haggerty: Actually, it is not the Department of National Health and Welfare then, Monique Bégin's department at all, that is looking into it; it is separate.

Mr. Stouffer: It is a consortium of the ministries that are involved. That is really what it is.

Mr. Chairman: You see there has been an image projected of cloaked bureaucrats meeting nocturnally to plot the future of the pension systems throughout Canada. One would surmise that Ontario's bureaucrats have been conspiring to create something remaining aloof from the political process.

I was not aware of that kind of secretive dialogue on a continuing basis. I am grateful to you for clarifying it. Your talks, I gather, are mostly with other provinces because that is where there is a continuing dialogue and that is where it is going on. Am I correct in that?

Mr. Stouffer: Yes, I would say that is correct.

Mr. Chairman: Is Quebec involved in that as well?

Mr. Stouffer: It has been up until now. Yes.

Mr. Haggerty: Is this Kirby---

Mr. Stouffer: No. The Kirby task force was supposedly going to visit Quebec. Whether or not it really did, I do not know.

Mr. Haggerty: Have they a final date to finalize their reports, when it has to be reported?

Mr. Stouffer: Are you talking about the federal green paper?

Mr. Haggerty: Yes, I am talking about this Kirby.

Mr. Stouffer: I do not know when their report will be out. It was supposedly going to be out in the fall of 1981. It obviously did not make that. It should be in the next few months.

Mr. Haggerty: Or is it completed now and just sitting on the burner?

Mr. Stouffer: I cannot answer that. I really do not know.

Mr. Haggerty: You do not know. The ministry has actually little input into it, then, by what you tell me. You do not have a--

Mr. Stouffer: Ontario has no input into that report, as far as I know; no direct input. We had one session but that was not--

Mr. Haggerty: Nothing previous to that at all?

Mr. Stouffer: No.

Mr. Mackenzie: If the minister has no money, there is not much point in bringing out the damned report.

Mr. Chairman: Do you think there is a deliberate stall? I think that maybe helps clarify the perception that some had in regard to ongoing dissertations or discussions at the federal-provincial level. It was raised to Mr. Stouffer because I had written to Monique Bégin suggesting a meeting with her and I must say I was not embraced with open arms as a result of that suggestion. We feel there is a time for discussion at the political level.

Mr. Mackenzie: I apologize if this has been asked. It may very well have been before I arrived, but in terms of the discussions that you have had with the various provinces over pension matters, did those discussions embrace the kind of issues--I do not know how you could avoid them--that we are discussing, the benefits or lack of benefits of changes in old age supplement, the Canada pension plan, you name it, or the various provinces' attitudes to these, or their attitudes towards the kind

of a provincial universal retirement system program that Ontario, or at least the committee here, suggested? Is this part of the dialogue?

Mr. Stouffer: The working group of provincial officials, the discussions to date have been related primarily to the refinancing of the Canada pension plan as it at present stands, and discussions about pension reform in general, trying to summarize where each of the provinces is in regard to that particular subject.

I presume, as it works in the future, there will be substantially more time spent on the matter of pension reform--let us say the private sector system--or other options that are available. But at this time it's really in its preliminary stages.

10:30 a.m.

Mr. Mackenzie: Refinancing being the main consideration.

Mr. Stouffer: Yes.

Mr. Chairman: Can we begin on the first proposal?

Mr. Stouffer: If I group my remarks into five areas, the first topic is a discussion of the philosophical foundation or basis for a provincial universal retirement system program. Then I would like to give you an outline of the way the PURS plan works, and then a discussion of what PURS accomplishes, according to the royal commission. Those first three topics will be discussed in the context of the royal commission itself. In other words, what has the royal commission said about PURS?

Then we get into the next section, which we describe as being the principal problems that have been identified with the PURS program. This is more or less a summary of the comments that have been received to date on the PURS program. Finally, I would like to wind it up with a summary of the kinds of questions that have to be answered before a PURS program could be accepted.

So, starting off with the philosophical basis, PURS is a central recommendation of the royal commission. It is a system of mandatory employment-based money-purchase pension plans. To give you some feeling as to why the royal commission arrived at a PURS proposal we, I think, have to see what problems were identified by the royal commission and then the philosophical view that was developed for addressing those problems. The pension problems were identified, and this will be old hat to all of you, but the eight basic problems the royal commission identified were as follows:

1. The low coverage issue, where 1.5 million people in Ontario have no formal voluntary pension coverage, and the likelihood that the coverage through voluntary employment pension plans will not exceed 50 per cent in the foreseeable future.

2. High job mobility means low pensions. For the existing portability arrangements there is only a fair probability that the mobile workers will actually accumulate a reasonable pension, and earlier vesting or locking in will not provide a satisfactory

degree of effective portability. As an aside here, when Castonguay was here earlier on last year at the previous hearings, he indicated that when you talk about coverage you have to think in terms of what is effective coverage. Does a person actually enjoy a pension for the time he spent as a member of the pension plan?

3. Contributory plans are inequitable. Upon termination of an employee's pension that may be paid to him, it may have a value only slightly greater or perhaps less than his own contributions. The deferred benefits of those terminated employees suffer the most from the effects of inflation where they are not indexed.

4. Defined benefit plans are inequitable, in the sense that the longer-service employees benefit at the cost of the short-service employees. That is particularly true in the final or best average defined benefit plans. Also, there is a complexity of design that prevents employees from really understanding what coverage or what pension they are going to be entitled to, and they do not really understand how they are subsidizing other employees.

5. The deferred wage concept is not recognized. Pensions as deferred wages are not fully recognized in any existing plan design except where there is immediate vesting.

6. The funding of defined benefits plans is very complex and subject to errors arising from actuarial forecasts and the experienced returns on investment, inflation, mortality and terminations. Even if the funding is disclosed, its complexity prevents plan members from really assessing what the financial position of their plan is.

7. Inflation has led to experience deficiencies in many final or best average plans and has eroded the value of deferred benefits in all defined benefit plans that don't have indexing provisions. Although there is a variety of ad hoc arrangements for adjusting pensions once in pay, there is difficulty with their funding and plan members can be misled into assuming there is more inflation protection in the plan than is actually provided. That is particularly true upon plan termination.

8. There are limited survivor benefits in most pension plans now and this is a necessary feature of pension plans, but not uniformly available in existing pension plans.

Those are the eight major areas the royal commission feels have to be addressed. At the same time, they state their philosophical position in regard to solutions to those problems. In their view, the problems can only be addressed if there is a change in the philosophy underlying employment pension plan designs. Specifically, and this is the key, I think, to understanding why PURS--a quotation here from the royal commission--"The necessary change in approach is away from group responsibility towards individual responsibility in the provision of retirement income through employment pension plans."

Three reasons are given for this change from group to individual responsibility. These are identified on page 305 of the report, volume two: The first is individualism. What this means is

that individual interests and the sanctity of property, in this case pension rights, are paramount. Individuals are allowed economic independence and permitted to benefit from their own initiative. That is our definition of what the royal commission means by individualism.

The second reason for this shift from group to individual responsibility is that subsidies among group members are no longer acceptable. Benefit subsidies that occur in defined benefit plans, whether employer-based or national, are no longer acceptable. The unacceptability of subsidies may be the result of an increased awareness of their long-term effects. That can be translated back into some of those problems that already have been identified among the eight I mentioned earlier.

The third reason for this shift from group to individual is that the costs of providing retirement income will increase in the future and there is a need both to control cost and relate cost to specific benefits. Cost concerns have increased with the realization in the late 1970s that resources were not unlimited, and a continuation of economic growth cannot be guaranteed. Many social programs rely on continued economic growth for their acceptability and if that growth is not there, then we can understand there will be dissatisfaction in the future with those programs, mostly on the part of those who pay for them.

The commission's solution to the problems that were identified within the context of this philosophical view is, and I quote from the commission's report, "the institution of a mandatory retirement savings plan on an individual account basis for all workers in Ontario between the ages of 18 and 65." That leads us in to the specifications of PURS.

10:40 a.m.

Mr. McClellan: Could I just ask one question of clarification? I don't want to stop your presentation, but on the second point, "subsidies among group members no longer acceptable," are you talking about intergenerational transfers or are you talking about redistribution within the current generation?

Mr. Stouffer: I think the commission is talking about two things there. That is a very broad statement right out of the royal commission's summary of what was said, but I think one of the kinds of transfers it mentions in its list of problems is the transfer from the short-service employees who terminate to the long-service employees who get a pension. The contributors in a pension plan or the members of a pension plan who do not derive any benefit from the plan or a small benefit from the plan effectively subsidize those who remain in the plan. That is one area. But they also state that it is a national plan problem, as well, and there I think you would be right, as you said, also to include transfers of the intergenerational type.

As to the specifications of PURS, its general structure is a system of fully portable money-purchase plans. Ideally the PURS plan would be a national system. However, if a federal-provincial agreement to PURS is not forthcoming, the system would operate only

within Ontario. Membership in the system would be employment-based and mandatory. Opting out would be permitted only under specific conditions. It is a money-purchase plan, and money-purchase plans define the contributions to be made by the employer and the employee, but not the benefit. The accumulated contributions and interest are used to purchase an annuity for the member upon his retirement.

In this particular plan, the eligibility provisions would be anyone who is employed or self-employed, between the ages of 18 and 65, so this makes the eligibility essentially the same as for the Canada pension plan. The earnings covered would match the Canada pension plan, that is, contributions would be made on earnings between the year's basic exemption and the year's maximum pensionable earnings, as defined by the Canada pension plan. For 1982, this would mean that earnings between $1,600 and $16,500 would be contributory income.

There is a note here that the YMPE was originally intended to equal the average industrial wage. However, that relationship has not been maintained, and at present the YMPE is roughly 20 per cent below the average industrial wage. For 1981 the YMPE was $14,700, and we are estimating the average industrial wage to be something like $18,500.

Contributions would be made to the plan according to a schedule based on age. For the employee, the contribution rate between 18 and 30 is one per cent, between 30 and 45, 1.5 per cent, and between 45 and 64 two per cent of the contributory earnings. In order to avoid discrimination, the employer contribution rate would be two per cent at all ages. When those contributions enter the plan, they will be immediately vested and locked in. What kind of a benefit does this generate? The intention of PURS, according to the royal commission, was to provide a retirement benefit of replacement of income of roughly 15 to 25 per cent for an individual worker at the average industrial wage.

The numbers they present there would suggest that a male contributor would derive 20.8 per cent replacement and a female contributor 17.7. These numbers were worked up on the assumptions that the retirement age would be 65, that the annuities would be calculated separately for the males and females utilizing the different mortality tables for those two sexes and that the payment that would be paid out would not be adjusted for inflation. I think this is a key point. So in those numbers that is the starting annuity replacement that you could anticipate. It further assumes that the individual has worked uninterrupted at the average industrial wage for a 47-year period, from age 18 to 65.

The type of annuity that would be derived: first, it would begin at age 65, but there would be an option to defer retirement until age 71, the same rules as for the registered retirement savings plans that we now have. There would be a mandatory joint and last-survivor option with 60 per cent going to the spouse, and that option would have to be waived by the spouse if a different type of annuity was desired.

It death occurred before age 65, there would simply be a

transfer of the funds accumulated to the deceased's estate. They recommend annuities should be calculated on unisex mortality tables.

Although this is a mandatory plan, provision is made that if the individual employee is a member of a pension plan which satisfies the requirements of PURS, that particular pension plan could opt out. However, it would have to guarantee that its benefits would not be less than those available under the PURS arrangement.

Finally, getting into the administration and finance for the plan, the contributions that were made would be placed in a deposit vehicle, and the contributors would choose a financial intermediary to receive and invest his or her contributions, as well as the employer's. Contributors could change intermediaries; however, only one account would be permitted at a time. If the contributor did not choose an intermediary, funds would be deposited with a central pension agency.

Mr. Williams: Could I just ask one question of clarification before you leave that page, Mr. Stouffer? Under the two separate headings, "PURS Annuity as Per Cent of AIW in Year Prior to Retirement," one of the assumptions is annuity calculated using separate male and female mortality tables. Then you come down to the next section, "Features of Annuity," "Annuities Calculated on Unisex Mortality Tables." Isn't there a conflict here?

Mr. Stouffer: Both these numbers were taken from the report, so those are all the numbers that I have. I would assume that if you were to work it out on a unisex mortality table, the male contributor would receive a replacement of maybe 18.5 per cent and the female contributor would receive a replacement of 18.5 per cent. They would be the same.

Mr. Williams: Yes.

Mr. Stouffer: But the numbers that were presented in the report were based on separate mortality tables, and that is all we hve to go by.

Mr. Williams: But the recommendation in the report is to go to unisex mortality tables--

Mr. Stouffer: That is right.

Mr. Williams: --while their calculations are based on the other.

Mr. Stouffer: At the present time, the royal commission does not see the need for self-administered PURS accounts; however, if that should be desirable in the future, that would be a logical extension.

The deposit vehicles that we mentioned would have their investments restricted in the same way that pension plans have them restricted now, with the exception that foreign investments would be excluded.

10:50 a.m.

Finally, in the administration, if it were a strictly provincial plan, the contributions would be remitted to, and accounts administered by the central pension agency in Ontario. However, if the provincial universal retirement system plan received national acceptance contributions would be remitted to Revenue Canada, and accounts administered by the Department of National Health and Welfare. This would parallel the Canada pension plan administration.

What does PURS accomplish? This is according to the royal commission. First, it covers virtually all employed and self-employed individuals between the ages of 18 and 65.

Second, it strikes a visible link between cost and benefit for employee, and introduces fixed and predictable costs for employer.

Third, it makes retirement income provision the responsibility of the individual through immediate vesting and complete portability.

Fourth, it makes pension accrual a form of deferred wages, and not a reward for long service.

Fifth, it prevents loss of pension assets through individual termination and cash withdrawal.

Sixth, it affords the individual an opportunity to participate in his or her own account.

Seventh, it permits voluntary employment plans to develop under collective bargaining arrangements.

Eighth, it causes employees to re-examine their current pension arrangements. Employers will decide whether to opt out of PURS or to alter their present plan.

Ninth, it results in full and immediate funding on a continuing basis.

Tenth, it allows individuals to benefit from inflation premiums in the nominal investment returns.

Eleventh, it removes the uncertainty about pension entitlement in periods of broken service whether through sickness, unemployment or short service; and it involves no subsidy from the less fortunate to the more fortunate.

A point that maybe should be clarified there is that now if a person has a period of broken service, his pension entitlement from the period before may disappear if he takes his cash. If he came back to the employer he would be starting over again.

In addition to these 11 points, there are other features that the commission notes. It does not rely on a complex set of intergenerational transfers for financing as would an expanded CPP,

and it would serve as a source of long-term savings for capital accumulation.

That pretty well summarizes what the royal commission has said about this PURS proposal. Since the royal commission several parties have examined this series of recommendations, and what we are doing here now will be summarizing the problems that PURS would create.

The first problem that has been identified is that PURS is regressive in the sense it adversely affects the lifetime low-income families. Mandatory PURS contributions would lower the disposable income during their working life and PURS benefits would displace their general revenue financed GIS benefits. In effect, the PURS plan required the lifetime low-income earner to prefund the GIS payments and the GAINS payments that he would otherwise receive.

The commission does not perceive this as a problem. From the perspective of the individual looking after himself, it sees this transfer of the cost of the guaranteed income supplement program from the general revenues of government to the individual who actually receives the benefits as a desirable result of PURS.

If you want to just turn briefly for a moment to the appendix, we set out there an example of the impact of PURS and the provision of benefits after retirement.

I will direct you through this fairly quickly. On table one, this assumes a single individual retiring on January 1, 1981, looks at the pre-retirement income--that would be income earned in 1980--and the retirement income that would be derived in 1981.

A person who is earning at the average industrial wage without the PURS plan has a disposable income of $12,607.91 prior to retirement. Without the PURS arrangement, but with the full Canada pension plan, the old age supplement, income from the guaranteed income supplement--he would not receive the guaranteed annual income system because he would be in too high an income category, but he would get tax grants. We are assuming there that he would be entitled to the entire property tax grant as well as the $50 sales tax credit. The total disposable income available to him would be $7,539, which means the present system is providing to that individual just under 60 per cent replacement.

If the PURS plan were instituted, the disposable income would drop because of the impact of first contribution, so it drops from $12,600 to $12,400. But the retirement benefit would increase from $7,500 to $9,513.39. In this particular case the replacement has risen from the 59.8 to 76.7. So, in this example, PURS has provided 17 per cent more replacement.

There are a couple of things that I think should be drawn to your attention here. That is that the PURS benefit is not indexed. So if we look 10 years down the road as constructed here, the PURS benefit would remain at the $3,500.36, which is illustrated in the bottom part of the table. But the other benefits from old age security and Canada pension plan would be indexed. So if you are

looking at the effective replacement of PURS, although it starts out as improving things by 17 per cent, it probably would be at a much lower level later on.

Table two presents similar figures for a couple. In this particular illustration again, just looking at the totals in the bottom part of the table, the effect of the income replacement without the PURS plan is 85.2 per cent. In other words, they would derive 85.2 per cent to their pre-retirement disposable income and receive income from government programs of $11,462.81.

Although the PURS benefit is, in this case, $2,720, there is an offset in Gains of $1,360, so that you effectively reduce the Gains payment substantially. So the married couple is not as well off, or is not made as much better off by PURS as a single person.

Mr. Haggerty: The same thing could apply to the tax grants, too. That could be removed at any time too.

Mr. Stouffer: That is true.

Here the effect of improvement and replacement is 11.5 per cent. So you can see that there is some variation from the 20.8 per cent figure that we illustrated earlier on when you factor in the impact on the guaranteed income supplement program.

It also illustrates quite nicely the fact that introduction of the provincial universal retirement system plan simply provides an offset to the guaranteed income supplement and, essentially, the individual who was contributing to a PURS plan would be prefunding his GIS benefit which he is now entitled to.

11 a.m.

Mr. McClellan: What percentage of the average industrial wage are you assuming as the PURS payout?

Mr. Stouffer: In that illustration we are assuming everything is at the AIW and that the AIW is $17,000.

Mr. McClellan: Right, and that the PURS payout is what, 15 per cent or 20 per cent?

Mr. Stouffer: We are using the 20.8 per cent. It was shown in the earlier table.

Mr. McClellan: Sorry. Yes.

Mr. Stouffer: Just a point of clarification: the 20.8 per cent is for the single person and 16 per cent for the married case because we are assuming that there would be a joint last survivor benefit.

Mr. McClellan: Why is the Canada pension plan payment so much less? CPP is paying at 25 per cent AIW and the payments are less than the PURS payments of $306 a month for 20 per cent. They have to pay $275 a month for your CPP benefit which--

Interjections.

Mr. Stouffer: No, I think that the part you are trying to get at is the Canada pension plan benefit is based on a three-year average of the yearly maximum pensionable earnings, and the PURS benefit is based on the final YMPE, so the average YMPE, or the three-year average industrial wage provides a lower base for the 25 per cent to operate on.

In fact, if you look over to page 16, assumption two, you can see there the calculation of the Canada pension plan benefits. Do you see the 37/95/25 there, the average of the three items? That average would be something like $15,000, I would guess.

In the case of the PURS benefit, and in the case of the singles, we would be taking 20.8 per cent of the $17,000 figure. That is why the number from the PURS plan appears to be relatively larger than it should be.

Mr. Riddell: One thing I do not understand, we are making a comparison here between the disposable income upon retirement and the disposable income prior to retirement. In your pre-retirements you have the married couple or the individual, it does not matter which, you are showing them with a CPP income and you are showing them with a PURS income, but in effect they would not have that income because they are not retired yet, would they?

Mr. Stouffer: We are not showing that as income, those are minuses, because they are contributions to the Canada pension plan, if you are looking at table one in the right hand column.

Mr. Riddell: Oh, okay. Yes.

Mr. Stouffer: Those are the contributions they have to make so you have to take those things off to find what their disposable income is. We have also included the Ontario health insurance plan in there as being a part of it. They would have to pay that so that is a deduction. They do not have to pay it after age 65.

Moving on then to the second problem, the burden of the employer's contribution falls most heavily on the low earners. As a general rule, employer contributions to non-wage benefits are still a part of the total compensation paid labour, and they are borne by the employee. So if we introduce a PURS plan the employers will adjust to the PURS contributions by restructuring the total benefit package and, perhaps, reducing takehome pay. Any reduction in takehome pay, or restructuring of established benefit packages will most heavily burden low-income families.

From an economic perspective, the employer contributions to PURS can be interpreted as an increase in the minimum wage. This could lead to discouraging the hiring of young, unskilled or part-time workers. That comes from the fact that the employer is putting two per cent into the PURS plan. He can't have a wage paid which is less than the minimum wage, so he has no way of absorbing that two per cent by reduction in the wage. It simply is an add-on to his employment costs.

A third problem that has been identified is the fact that it takes 47 years for PURS benefits to mature, so that if the PURS plan was instituted in 1983 it would be 2030 before full benefits would be available. The commission doesn't consider this a problem since the present programs, OAS, CPP, GIS and the Ontario Gains meet a major part of the low-income problem.

Mr. Haggerty: What you are telling me here is that there is no problem there, that the present old age security and Canada pension and GIS provide sufficient--

Mr. Stouffer: With the exception of the single elderly problem.

Mr. Haggerty: If they increase the Canada pension benefits now, perhaps this would just completely throw the PURS program out.

Mr. Chairman: With the exception of the philosophy.

Mr. Haggerty: That is all we are dealing with is the philosophy.

Mr. Stouffer: There are some other things I can talk about later on that we could consider here.

Mr. Haggerty: All we are dealing with is the philosophy of it, whether there is a need for it or not. I understand that there is a need for the low-income--

Mr..Stouffer: The single, elderly--

Mr. Haggerty: That's right, that their benefits should be increased. Assistance should be given to them somehow, either through Canada pension or--Issues on Pension Policy. We talk about philosophy and maybe I should read this into the record; this is from Issues on Pension Policy.

Mr. McClellan: I wonder if we could allow the witness to complete his presentation.

Mr. Chairman: There is going to be a lot of time for discussion and debate. I wonder, as was agreed at the outset, if Mr. Stouffer could complete his presentation and then we could come back and tear him to shreds later. I say that in a--

Mr. Stouffer: I hope you noticed that I have avoided taking a position here.

Mr. Chairman: It is not your thought. It is the thought of the royal commission and what you are doing is giving us a briefing on the royal commission's recommendations, so I don't want you to take my comments personally, Mr. Stouffer. However, as you know, the tendency is to shoot the messenger.

Mr. Mackenzie: I noted how you very carefully, in the beginning, distinguished between the royal commission's views and--

Mr. Stouffer: Okay, moving on to number four. The level of the PURS replacement rates are uncertain and this is brought about because of the money-purchase design of the plan. The commission indicates, as we discussed earlier, that the replacement could be 20.8 per cent of the AIW for males and 17.7 for females. However, this projection has three restrictive assumptions.

The first, an important one I think, is that it assumes that employment is uninterrupted between the ages of 18 and 65. Secondly, the annuity that is paid out is a single life annunity. Now the two things there--the males and females of course have different rates. If a joint and last survivor type annuity were used those replacement levels would probably be perhaps four percentage points smaller.

Mr. Williams: I am sorry, what annuity?

Mr. Stouffer: A joint and last survivor. The kind they recommend is the pension that continues to the survivor at the level of 60 per cent of the pension available to the member. So that would have the effect of bringing down the replacement perhaps four percentage points, from 20.8 to roughly 16.5, somewhere in there. Further, the pension that is created in these calculations is a level pension. It is not adjusted for inflation in any way.

You will recall that in the royal commission report a suggestion was made that inflation adjustment be made through the income tax system, so that is why it did not appear here in these numbers.

11:10 a.m.

To give you some kind of a feeling for the reduction that would be created if you had inflationary pensions--that is, pensions that escalated--you would have to reduce that replacement rate by another perhaps four or five per cent, somewhere between four and five per cent, or six and seven per cent. Somewhere in that range would be the reduction in the replacement rates. It follows on down we might be talking about a 10 per cent replacement rate by the time you really got all the features in that you wanted.

Mr. McClellan: Ten per cent?

Mr. Stouffer: Yes. I am saying 20.8 per cent is for the male; take off four per cent for the joint and last survivor; take off another six per cent for the inflation protection and you are down in the neighbourhood of 10 to 11 per cent. That is roughly what it is, something to give you some feeling for the adjustment.

I think we have pretty well covered all of the points there at the top part of nine. Moving on to five, a criticism that has been levelled against PURS is that the same contributory history can produce different benefits. The final benefit that is available from PURS is sensitive to two things; the investment performance during the accumulation period and the prevailing annuity rates at the time of retirement. I will talk about that in a minute. Two individuals with the same contributory history could receive

dramatically different benefits because of the different investment performance.

To illustrate, we have assumed that interest exceeds wages by one per cent over a 45-year work history, then the defining contribution plan similar to PURS would produce a 15 per cent replacement rate. However, if this interest-wage gap dropped to zero per cent, the replacement ratio would fall to 12 per cent. So it becomes very important, the relationship between the investment returns in the fund and what the growth rate in wages is.

Similarly if the interest rate-wage rate gap rose to 20 per cent, that replacement ratio would be 19 per cent. So you can see there is a remarkable spread there, around 15 per cent. One per cent less gives 12, one per cent more gives 19.

The sixth point is that the PURS benefit is contingent upon the prevailing annuity rates at the time of retirement and the last two years has been a fine example of that kind of effect. In other words, if you had bought an annuity just two years ago you might get a 12 per cent rate, whereas in the last six months annuities have been calculated using rates as high as 18 per cent. It makes a dramatic difference in the level of benefits that would be paid out under PURS.

The commission recognized this limitation and suggested that there could be some flexibility built in by permitting contributors to purchase part of their annuity in the three-year period prior to retirement or a three-year period after retirement, to allow a smoothing of the interest rates and hence the annuity costs. This introduces additional uncertainty and complexity into the system.

The seventh point: the administrative costs would be high. PURS allows the individual to select and transfer accounts among competing financial intermediaries, and the cost of administering these transfers and supplying individual contributors with performance statements could be significant. In addition, the expense financial intermediaries would incur in competing for PURS accounts could be substantial, and these costs would be translated into lower returns for the PURS participant.

Finally, the royal commission indicated that it hoped the PURS could be instituted on a national basis and it certainly would be most effective if it were on a national basis. However, it is doubtful if all the provincial governments and the federal government could accept PURS.

We have already had Saskatchewan indicating that it has a strong desire to expand the Canada pension plan. Quebec has indicated its intention to expand the Quebec pension plan and Manitoba has introduced a government-sponsored, voluntary employment-based, money-purchase pension plan called VEPP which is, in a way, a variation of the PURS plan.

Mr. McClellan: When did that take effect?

Mr. Stouffer: I think it took effect October 1.

Mr. Bentley: January 1.

Mr. Stouffer: January 1? Is it supposed to be working now?

Mr. Bentley: It was effective--prior to the last election it was supposed to be effective on January 1. I do not know what has happened since then. It was originally intended to have it going October 1.

Mr. Stouffer: To kind of tie this whole thing together now, we have had what the royal commission has said about PURS and how it sees PURS answering the problems it identified, and we have had some comment from different groups; in particular the Ontario Economic Council and the Economic Council of Canada have prepared their papers on the PURS proposal. That brings us now to a summary of what has to be looked at in coming to a decision as to whether or not to accept a PURS type of arrangement as a centrepiece for pension reform.

I have broken this down into four broad questions that should be considered. They are very broad and I will have to explain them as we go.

The first one is, is an expansion of mandatory employment-based pension plans desirable? This has to do with what has been called the coverage issue. To explain that briefly, we already have 100 per cent coverage in the sense that the Canada pension plan provides one tier of pension protection which has 100 per cent coverage. What we are really talking about is whether or not there should be another tier of 100 per cent coverage. The decision then has to be made, is that desirable to have another tier on there?

The second area that has to be looked at is what is the minimum level of retirement income that should be guaranteed or provided by government pension plans? Here we have to look at the concerns that we identified earlier, the interplay between the guaranteed income type program which can be directed at individuals who are in need, and the question of whether or not low-income individuals, in particular, should be forced to save for their retirement.

The third area we have identified that has to be answered is to what extent should government-mandated employment pension plans permit intergenerational or intragenerational redistribution of income? In the case of the Canada pension plan, we have a system that provides for substantial intergenerational transfers and not really significant intragenerational redistribution. The PURS arrangement is something that protects against intergenerational transfers and at the same time avoids intragenerational transfers. That is something that has to be grappled with, as well, when you are looking at this particular question.

11:20 a.m.

Finally, if there is to be an expansion of mandatory coverage, once you have answered those first three questions and decided that there needs to be another tier, 100 per cent coverage

at a higher level of replacement than we have now, what is the best way to go about it? Is PURS superior to the Canada pension plan or is the CPP a better vehicle?

We have not here presented any arguments for either the CPP or the PURS arrangement in comparison with each other. I think that is beyond the scope of what our assignment was today since we are directing our comments at the royal commission report itself, but that is something that has to be addressed by the select committee before you can come to a real understanding of how to consider PURS. That brings me to the end of the prepared remarks.

Mr. Chairman: Mr. Stouffer, before I give Mr. Haggerty the opportunity to carry on with his questions and citation of certain information or writings he has, could I ask you a general question? It goes back to the initial part of your presentation, which reflects the royal commission's philosophy, and that is that to address these problems a change in philosophy is indicated.

You quote from the report that the necessary change in approach is away from group responsibility towards individual responsibility in the provision of retirement income through employment pensions. It strikes me there may be an inherent contradiction there, in that in the name of individual responsibility you have a government mandating a universal program. That does not seem to coincide with my concept of logic. Do you have any comment on that?

Mr. Stouffer: The royal commission identified that increased coverage by the private system of voluntary employment pension plans was unlikely, so that the only way to improve "the coverage" or to provide full coverage on a higher level of replacement than is available under the CPP, it would have to be mandated by government.

Mr. Chairman: The other broad observation I would like to make before Mr. Haggerty gets going is there is a certain premise or assumption or series of assumptions that are made prior to and forming part of, I was going to say, developing the concept and upon which the concept or PURS proposal is based. I sense that some of those are indicated.

They are identified as existing problems and problems that are current and will remain current and therefore we have to bring about reform. High job mobility, for example, could mean we find benefit plans inequitable, deferred wages unrecognized and so on. As you know, this committee has recommended change, what we would consider reform in regard to those items, which items, as currently exist, form an incentive if not a premise for developing a PURS program.

If the premises change or the pension problems as identified are rectified, would that not in your view make unnecessary, or at least less necessary, the development of an add-on type of pension plan such as the PURS plan?

Mr. Stouffer: The two things probably run hand in hand. I think really what PURS is trying to get at, the major problem it is

trying to solve, as I read it, is this matter of inadequate employment pension income or inadequate retirement income being paid to people who are in the low income levels who are at present uncovered, or to anyone who at present is not a member of an employment pension plan.

I think that is the primary problem that PURS addresses. Obviously, it does not solve the problem for the individual who is now in a final earnings plan, who has a 10-year vesting, that sort of thing, the problems created by that. Those problems do not go away because we bring in PURS.

I think if you look at the royal commission in its context, they are really saying, "You have to do that for the employment pension plans that currently exist," but there is still a very large uncovered group and the only way to get coverage for them is to mandate it. It is not going to come through the voluntary system. In that perspective, I think you have to look at PURS, and the primary problem that it is solving is the low coverage.

Mr. Chairman: So of all the problems that have been identified in the report, and you have enumerated eight of them, the significant one is the low-coverage one, because most of the other problems will evaporate if there is basic pension reform.

Mr. Stouffer: If there is basic pension reform along the lines the select committee has already indicated, there will be a reduction certainly in the problems that are identified here. I do not know that they are perfectly solved. In other words, five-year vesting does not perfectly solve some of the problems that are identified here. It does not perfectly solve the portability question.

But I think that the PURS plan is consistent, in that if its primary purpose is to solve the low-coverage problem, the design of the plan does not have these other problems in it. In other words, they have got around all the problems that they have identified so that the PURS proposal, if looked at only by itself, does not have these problems. It is not a solution to these problems in employment pension plans but, as itself, it does not have those particular problems.

Mr. Chairman: What you are saying is that it can accomplish its goal whether or not there is reform in the present pension legislation.

Mr. Stouffer: I think you could say that, yes.

Mr. Chairman: Then the impact of the deductions, the first deductions of premiums on the low income, do you see that as a disadvantage or as a defect?

Mr. Ilkiw: I guess the traditional view taught in the economics course and the traditional view society develops is that there are low-income and underprivileged individuals in society, and I guess the evolution of society suggests that there be collective responsibility. This seems to be some kind of a slight

step backwards. That is the theme of the criticism lodged against PURS with respect to the regressive nature.

Mr. Chairman: Would that criticism be equally relevant if you increase the Canada pension plan premiums? Would that affect the same target groups?

Mr. Ilkiw: You would first have to have in your mind clearly how you would expect the Canada pension plan to be expanded. There are many variables in the Canada pension plan benefit structure that you can alter but, if it was essentially changed in the manner that the provincial universal retirement system is, you would just increase the replacement rate up to the current yearly maximum pensionable earnings, the end result would be the same.

11:30 a.m.

Mr. Chairman: In other words, unless you introduce some social engineering--

Mr. Ilkiw: Yes.

Mr. Stouffer: There is another aspect to that as well. In the Canada pension plan it would depend, too, on how you decided to finance it. Just assume you were to double the Canada pension plan, if the improved benefit was to be fully financed, then the contribution rate for that part of it would probably have to go up to eight or nine per cent. In that context, that would have a comparable impact; the magnitudes would be different but it would have an immediate impact on the low income people.

But if you chose to pay-as-you-go to finance the Canada pension plan then the contribution rate would not have to rise to be at the eight or nine per cent level, so there would be a possibility of softening the blow, at least for the early years. Of course, it could maybe create a disaster later on, I do not know, but for the early years the low income people would not be paying the full cost of the benefits they would be deriving so there might be some advantage to it.

Mr. Chairman: Mr. Haggerty and then Mr. McClellan will carry on.

Mr. Haggerty: I think my comments, Mr. Chairman, were on "Principal Problems Created by PURS" and the three or four different areas covered there by the commission, which does not consider this a problem since it should take 47 years for PURS to mature. The presentation says: "It will take 47 years before mature PURS benefits are paid. If instituted in 1983, the first mature PURS benefit would not be paid until the year 2030. The commission does not consider this a problem since the immediate and urgent retirement needs are met, with the exception of the single elderly, by current OAS/CPP/GIS system."

I think the comment from the witness this morning was that this was perhaps a philosophical approach taken to improve the pension schemes in Ontario. I made reference to Issues in Pension

Policy and Financing of Public and Private Pension Plans Analysis from Two Perspectives. This is from the taxation fiscal policy branch of the Ministry of Treasury and Economics of December 1979. It goes into some detail.

I was more concerned with the summary of that report. It says: "A policy dilemma: The conflicting conclusions pose a dilemma. The implementation of policies which pursue society's overall economic wellbeing places the individual pension plan contributor at an apparent disadvantage. On the other hand, the price of implementing policies which lower the individual perception of the cost of pensions is the foregoing of increased collective wellbeing."

It goes on to say: "Pay-as-you-go financing delivers pension benefits at the lowest financial cost. This is a strong and persuasive rationale for pay-as-you-go financed national pension plans. Further, if contributions to employee-sponsored plans become more significant, the relatively lower contribution rates associated with an expanded CPP/QPP or even an amalgamated pay-as-you-go private pension system become more appealing."

So far, as a new member of the committee, I have looked at the suggestions of pursuing the matter of PURS. To me there is nothing in this report that says we should be moving in investment fund financing. It does say:

"From the economic perspective, investment fund financing is preferred. The total value of economic benefits accruing to society from additional capital investment exceeds the value of reduced pension plan contributions under pay-as-you-go financing.

"Unfortunately, the external portion of the total return to investment fund financing is not identifiable by individual contributors. This puts the economic solution at a practical disadvantage. Further, even if the external return is recognized, its impact on individual preferences is not clear since it would only indirectly benefit plan participants. While pay-as-you-go financing produces an identifiable reduction in contribution rates, an individual's share of the external benefit is elusive and therefore may have less impact on the process of policy formulation."

Just based upon those comments, it is hard for this committee and myself to understand the full impact on the recommendations or suggestions of the Royal Commission on Pension Reform, and to extend it into the area of the suggested PURS program of increased benefits. I look at the age of 47 years to be insured. That is a rather lengthy time, I think. We are looking at pensions today to be reduced considerably from the age of 65 down to 35 years of employment.

There is nothing mentioned in this report this morning, or even in the discussions yesterday, that deals with the problem areas that face those persons who are on fixed incomes, or those persons who may become disabled before the age of 65. There is nothing suggested in here that there is a disability program built

into the PURS program, or I am not aware of it. Perhaps the chairman can tell me. Is there a disability program?

Mr. Chairman: No.

Mr. Haggerty: That is one of the problem areas with the pension schemes today. Even under the Canada pension plan, the disability allowance is not sufficient to maintain a person at a reasonable income to survive. I suggest to you, as I look at this, that I would just throw it out the door. There are so many ifs and buts to it that it is hard for me to say it would be a good program for the province of Ontario to get into. The cost as it relates to policing it would be enormous. I can see that that alone would reduce the end output of the benefits to those persons who are contributing to it for the purpose that they do have sufficient income at the age of 65 to retire comfortably.

There are so many unanswered questions here. Perhaps some of the other committee members can get into it too, but I find it falls far short of any thoughts I have in mind to improve pension schemes in Ontario for those persons who are low income wage earners and persons who, through some unfortunate happening, have become disabled. There is nothing in here, except in the philosophy that it is somebody's scheme to dream up a program like this that is supposed to give us the cure-all to our problems in pensions in Ontario.

Mr. Chairman: Mr. Haggerty, you may be confusing pensions, which are, in my view, an understanding based on the involvement in the work force at some stage of one's life, with the need of a minimum income for people to survive. I see those as separate. Maybe Mr. Stouffer could comment on that.

When we are talking about the 1.5 million workers in Ontario they are people in the work force. When Mr. Stouffer comments, if he cares to, he might be able to give us an idea of who these 1.5 million workers are. Is it a continuing stream where you may have at any one time 1.5 million workers? What is the average number of years that they may be in that particular group? Are some of them students? Are they people who are part-time who have become full-time and who, when they graduate, become high income earners? Who are these people? Can you follow them through and make some more sense out of that? I say that when we are talking about a plan, in this case the PURS plan, that requires a lifespan of 47 years in order, I guess, to regurgitate the maximum benefits.

11:40 a.m.

Mr. Haggerty: It would be difficult even to obtain the first five years of employment, because I can see under this program that many employers perhaps will not get a person established in an industry or employment up to a period of five years. It will be three years and you are gone. They wouldn't even be able to obtain any income in the program suggested here.

I think in one of the committee's first reports it said five years would be the beginning of the contributions for investment purposes. I think that is going to be rather difficult to maintain,

because my experience has been sometimes you get up to almost 10 years in an industry, and because you are getting into an area of pension level under the present schemes if for some unknown reason you were dismissed or your job was no longer there. It would depend upon the type of job. If you were skilled in that particular job, I think it would be an area where the industry could look at and say, "Well, we just can't part with that skilled worker at the present time, but this other one has lower labour qualifications."

In certain industries, people have always had a difficult time in the past to find security in jobs. I know about the layoffs at Inco. I use that example, because I sat on a committee dealing with the layoffs there and we found this to be a factor too in job security. Almost 10 years if you got to that--there was good screening being done before a person would perhaps be found acceptable beyond the 10-year level or nine-year level in that particular industry. In setting that basic five-year principle, I don't think you are going to have too many employees being maintained in employment opportunities based upon that.

Mr. Chairman: PURS would have immediate vesting, as I understand it. There would be no waiting period.

Mr. Haggerty: I thought it was five years before you could qualify.

Mr. Stouffer: No, sorry, right from the first day you work in the PURS plan.

Mr. Haggerty: I thought I saw that in one of the recommendations.

Mr. Stouffer: The recommendation for employment pension plans the royal commission came out with and the select committee suggested was that there be vesting in those plans after five years. In the PURS arrangement it was immediate vesting. That is what gives it effective full portability.

Mr. Haggerty: I cannot find it now, but that was the way I interpreted it. Perhaps I'm wrong.

Mr. Stouffer: We have it summarized in our notes here on page four at the bottom, the very last point. "Contributions are fully and immediately vested and locked in."

Mr. Haggerty: That is after one year's employment?

Mr. Stouffer: That is after one day's employment. There is no waiting period to get in. You may be confusing the recommendations related to employment pension plans and the recommendations related to PURS. It's the very last point on the page.

Mr. Haggerty: Yes, I see it there. "Contributions are fully and immediately invested and locked in."

Mr. Chairman: Did you wish to comment, Mr. Stouffer, on the observations I made?

Mr. Stouffer: I can make some comment on those. The first thing you talked about had to do with who are the uncovered, and the only information we can get now is a snapshot approach to it, in other words, taking a snapshot of the population, and seeing who is in a pension plan and who isn't. We can't tell you who is likely to be in a pension plan at some time during his working lifetime.

As a first pass at answering your question, there was a study done for the Canadian Institute of Actuaries, and I am sure it was tabled here, showing the proportion of employee tax filers between the ages of 25 and 64, who were covered by registered pension plans or members of registered retirement savings plans. Combining those two vehicles, if a person is earning less than one half the average industrial wage, only 15 per cent were members of RRSPs or RPPs.

Between one half and one times the average industrial wage, the coverage was 51 per cent. As you move up between one and two times the average industrial wage, coverage was 78 per cent, and above two times the average industrial wage, the coverage was 86 per cent. So that tells you the largest group of uncovered people lies in the low income earning group.

Mr. McClellan: Can we have numbers for the section of the work force attached to those categories?

Mr. Stouffer: Just a minute. There are statistics, but I do not know--

Mr. Ilkiw: Could you specify your question again?

Mr. McClellan: When you say that 50 per cent of AIW workers are covered by RRSPs or RPPs, what percentage of the work force is that, or how many people is that?

Mr. Ilkiw: I think it is a safe assumption that most people there would be filing an income tax return if they are employed, so essentially they are one and the same. There might be a small percentage drop--one or two points at the most--but essentially you could treat them as being identical.

Mr. Stouffer: I think there is a misunderstanding here.

Mr. McClellan: Give me the stuff again, I may have--

Mr. Stouffer: I think what he want to know is what percentage of the labour force is at one half times the average industrial wage and below in income. I think it is safe to say that roughly 50 per cent of the people of the labour force are below one times the average industrial wage.

Mr. McClellan: That is helpful.

Mr. Stouffer: Fifteen per cent of the coverage does not mean anything if there are only two people in the group.

Mr. McClellan: Precisely.

Mr. Ilkiw: The only number we have developed here--it can be broken down but this is for 1979--

Mr. Stouffer: This would suggest more than 50 per cent are below. If you take the present YMPE as being roughly 80 per cent of the average industrial wage, 56 per cent of the population have income below that level.

Mr. McClellan: Below the YMPE?

Mr. Stouffer: Yes, 56 per cent of the labour force has income below the YMPE so that group--

11:50 a.m.

Mr. Chairman: Mr. Stouffer, how do you define labour force? The people who are paying income tax or what?

Mr. Stouffer: It is defined as anybody who contributes to the Canada pension plan. This is the data base we are using. You look at CPP contributors. Essentially, that is your total employed labour force.

Mr. Ilkiw: We find that 56 per cent of the people who contribute to the Canada pension plan are at or below the YMPE. Sixty-seven per cent are at or below the average industrial wage and 86 per cent are below or at one and a half times the average industrial wage. Because we consider CPP to have universal coverage except for the odd exception, that is the same as the employed labour force. Then we can divide it up between males and females and you would find it a bit different.

Mr. McClellan: Does that tell us, when we are talking about our 15 per cent, how many people we are talking about?

Mr. Ilkiw: We can crank out the actual numbers of people by looking at the total labour force in that particular year, but it changes from--

Mr. McClellan: It might be helpful for the committee, since the issue of coverage is a central issue and still subject to a certain amount of confusion--would it be possible for you gentlemen to pull together the material you have with respect to coverage? I realize it is not a heck of a lot more than what you have given us, but even if we had it in front of us in black and white with some indication of what numbers and percentages of the work force we are talking about in terms of coverage, I think that would be helpful.

Mr. Stouffer: We do have, although it is not published yet and is not in a state to be published yet, a paper we are doing on the coverage issue. We are not prepared to let this paper go out yet, but there is a lot of information here on who is covered and who isn't, what industries are affected and all that sort of thing, which would be a useful document, for the future anyway, for people to have.

Mr. McClellan: It is very hard for us to do our job without having the most--

Mr. Stouffer: The only thing I can suggest is that I undertake to pull together some things from here that you could use.

Mr. Chairman: That sounds like a happy compromise rather than a Speaker's warrant.

Mr. McClellan: The numbers preclude Speaker's warrants in the new realities. But I would ask if the chairman could make, since this is obviously a policy decision, inquiries on behalf of the committee to the appropriate ministry to see whether this material could be made available to the committee, since the coverage issue is central to everything we are dealing with under our mandate. If that isn't possible, then perhaps we could take advantage of--

Mr. Stouffer: I think we can try to summarize--

Mr. Chairman: Mr. McClellan, I feel it is a pretty central issue. That is why I raised it with Mr. Stouffer. We raised it in the past after asking a few questions of Mr. Stouffer in connection with the first program. Fundamental to the raison d'être for the first program or plan is the coverage issue. What I will undertake to do certainly is to get together whatever information is available that could assist the committee in regard to identifying the extent of the problem. Okay?

Mr. McClellan: I am quite happy to leave it in your capable hands for the time being.

Mr. Chairman: Then Mr. Stouffer can relax. With the editing process and so on, I am sure there will not be any secrets made known or premature release.

Mr. Stouffer: The point is that all of the information is available in libraries and what have you. It is simply a matter of putting it together.

Mr. Mackenzie: I assume, Mr. Chairman, you are taking advantage of his offer to pull together some of this.

Mr. Chairman: I sure am, yes.

Mr. Riddell: Any problems with this PURS program that have been outlined in your presentation seem to be problems at the employee level. Do you see any problems at the employer level? How acceptable would this program be to employers, owners of businesses, industry and what not?

Mr. Stouffer: I really cannot say. You have already heard from the CMA and the small business people who have indicated their concerns or their acceptance of the PURS-type arrangement.

Mr. McClellan: Investment dealers were the only ones who liked it.

Mr. Riddell: I am not sure. I think some of the other business people and organizations that appeared before us endorsed the program in part, maybe not in full.

Mr. Mackenzie: Investment people were the only ones that really had much good to say about it.

Mr. Chairman: In fairness to Mr. Riddell, and I seem to be coming to Mr. Riddell's defence on occasion, I think what he is pointing out is that the proposition or concept of regressivity would apply to small businessmen or to family operations as well as it would to employees and it is question of whether it is the last straw that would break the back of the little employer. Am I correct in that, Mr. Riddell? Is that your concern?

Mr. Riddell: Yes. It was a point I was going to come to.

Mr. Stouffer: We indicated in our notes that the employers who could would probably adjust their cost of a PURS system through a total compensation package; except for small marginal employers who employ a lot of people at the minimum wage, that would not be possible. In that context, something would have to give. Either employment would go down or the employer might say, "Well, I cannot carry on this kind of business." I do not have a handle on how many people would be affected by that. I am afraid I cannot answer that.

Mr. Riddell: One of the criticisms we did hear, if my memory serves me correctly, was that a person in his early years, particularly if he embarks on a career of some kind, wants all the disposal income he can get to purchase property rather than to purchase a pension plan. Then if we go back to the example you used, I do not suppose that on the basis of the average industrial wage to pay $306 a year on PURS would make the difference between whether you purchase a home or not, would it?

Mr. Stouffer: At $17,000 you probably would not purchase a home either.

Mr. Riddell: No, but then the higher the income you make, the more disposal income you hope to have.

Mr. Stouffer: It is not a large program. You are right there. As far as contributions go, it is not.

Mr. Riddell: I just wondered how valid that criticism was. Lastly, there is something the committee has suggested that I should maybe bring to your attention now that you are here today. It is in connection with the Canada pension plan. I guess you were the one that made the statement that--

Mr. Stouffer: Just be careful. I was misquoted but that is--

Mr. Riddell: Oh, you were misquoted?

Mr. Stouffer: Out of context.

12 noon

Mr. Riddell: According to the article here, and I quote: "'However, employers and employees will probably have to pay higher CPP contributions sooner because Ontario does not intend to repay,' said David Stouffer, the pension adviser in the Treasury ministry."

In other words, we are dealing with the funds that the government had borrowed from the Canada pension plan for whatever purpose. The Tories say that it was put into social services. I do not know that it was ever earmarked as to where it was spent. I do not know where it was spent. I do not suppose they know where it was spent either.

The fact of the matter is that the money was borrowed from the CPP fund. The indication is that the government does not intend to repay the Canada pension plan. The point I have been trying to make is that there is a $17-billion deficiency in the fund on the part of all provinces or this province. What is it here? Something to the effect of $9 billion. Is it fair that the contributors should be expected to pay a higher rate because of a deficiency in the fund which was not of their doing?

Mr. Stouffer: Can I explain this whole thing in its proper context?

Mr. Williams: Do this carefully because Mr. Riddell wants to put this in a letter to his constituents. Give him the full treatment.

Mr. Riddell: It is something maybe you do not do.

Mr. Stouffer: Perhaps I should send you a letter where it is all written down.

Mr. Williams: I will send you copies of my reports, documents reporting to constituents and giving them all the facts.

Mr. Riddell: I would hope that it would contain a lot more substance than some of the stuff in the Legislature.

Interjections.

Mr. Williams: The quality does not vary.

Mr. Riddell: You are provoking us. I asked him a question; I expect an answer from him. I did not ask Mr. Williams for an answer to the question.

Interjections.

Mr. Chairman: I think it is a concern that your finance critic, David Peterson, has asked about in the past, and I think it is an opportune time now for Mr. Stouffer to respond.

Mr. Stouffer: The arrangements for the Canada pension plan are the first thing we have to talk about here. Contributions

and investment income accrue to the Canada pension plan each year and benefits are paid out. The net difference between those two amounts, the difference between income and outgo, is available or surplus to be borrowed by the provinces under the arrangements of the CPP act.

Ontario has, of course, borrowed from the fund and, indeed, will be paying back the money to the fund as the debentures that were issued mature. For example, in 1986 the first debenture matures. I think it is for $19 million or $21 million or something like that. Each year thereafter more debentures mature and they will be paid back to the CPP fund.

At the same time, those funds that are paid back are available for reborrowing at the then current interest rates. This is a standard practice in pension funds in the private sector or any other investment kind of arrangement. For example, a private pension plan may hold corporate bonds that mature. They take that money and buy either bonds from the same corporation or from another corporation. The principle of rollover is well established in both the private sector pension plans and in the Canada pension plan as well. There is nothing particularly unusual about that.

The fact that the contribution rates are to be increased does not have to do with the fact that the provinces have borrowed from the Canada pension plan. Contribution increases are brought about as a result of the maturing of the Canada pension plan. When the Canada pension plan was established in 1966, the contribution rate was set at 3.6 per cent. However, it was recognized at that time that the contribution rate would ultimately have to rise to about eight per cent.

The impact of the provinces borrowing from that fund has really done very little--you might say nothing--to the fact that the contribution rate must go up. The reason the contribution rate has to go up, of course, is that as more benefits are being paid out more income has to be raised. Had the plan been financed right from the beginning on a fully funded basis, which it was not, then the contribution rate would have remained stable; but the start-up contribution rate would have been probably eight per cent for the future service part and maybe another 10 or 12 per cent--I am not sure--for the liability associated with the past service credits because you must be a member. If you contributed to the Canada pension plan for 10 years, you are eligible for the full Canada pension plan pension.

In the design of the plan it was implicit that the contribution rate be increased. It was also implicit that the plan would not be fully funded. If you take those two things into consideration, the contributionary increase is inevitable. The fact that the provinces have borrowed the funds does not really have an impact on the level of that contribution rate.

The criticism is raised that the provinces have paid an unfair rate of interest on the funds that have been borrowed. The formula for the interest that is payable is that the debentures are issued each month, and the rate that is attached to them is the rate on 20-year long-term Canadas, the market rate in the first

three days of each month. So the rate that is attached to those debentures is very current and is market-related. However, it is related to what the federal government is able to borrow at. We did a study for 1980-81 which showed that on average Ontario was able to borrow at the rate of about 0.3 percentage points less than it would have had it had to go to the public market.

Mr. Williams: What was that percentage point?

Mr. Stouffer: It was 0.3. That is on average for that year. That would suggest that there is not that large a gap between the level that we pay on the Canada pension plan funds and the rate we have to pay in the public market. In years previous to that, there were some years when it was a bit higher, but it was not substantially above the level.

The other thing you have to consider is the magnitude of the Canada pension plan fund itself. If the plan were to be fully funded, instead of having about a $20-billion fund, we would probably require a fund of the order of closer to $200 billion. Then investment performance would be very important. I had better take that back. I guess $140 billion would be a better approximation of what the size of the fund should be if it was fully funded.

In that context of a fully funded plan, the investment return is very important because, obviously, the fund is very large and there is an awful lot of investment income. Better investment performance could have an impact on the cost of the benefits that are paid. Because the fund is so small in relation to the benefits that are paid, I really cannot see an improvement of, let us say, one per cent on that fund having any significant impact on the contribution rate. The fund just is not big enough to generate enough investment income to have an impact on the contribution rate.

If you look at it in the broad scheme of things, that is why we say that the provinces' borrowings from the fund really have not had an impact, or a major impact, on the contribution rate. Again, in the article and subsequent articles to that one, the suggestion was raised that the fund should be used to pay benefits, in other words, maintain the contribution rate at 3.6 per cent until the fund is exhausted or brought to a relatively smaller position. This was a recommendation of the royal commission as well, that they should hold the contribution rate at 3.6 per cent to 1991.

There is a purpose for having a fund. It may not be desirable to have a fund so large that the fund is fully funded, but at the same time it is desirable to have a fund large enough to absorb shocks which may occur in the contribution rate. For example, in the future we know that the contribution rate is going to go up to at least eight per cent. If you look at the Economic Council of Canada report, they suggest that by 2030, in that area, the range could be as high as 12 or 15 per cent but the low may be seven per cent because the demographic scenario for Canada is changing dramatically.

As the baby bulge moves through the retirement years contribution rates could be very high indeed. One of the purposes

for having a fund then would be to help stabilize the contribution rate in the future and when I am talking of the future, I am talking of 30 to 40 years down the road.

So there is a purpose for having a fund. It may not be desirable to have the plan fully funded. It is also I think undesirable to have no fund at all so that if you did have those kinds of shocks coming through and very high contribution rates, you would be forced into making the higher contribution rate or cutting back on the benefits.

12:10 p.m.

Mr. Riddell: Let me ask you this question. If we in the province of Ontario and all provinces adopted the first program, which would probably mean then that we wouldn't need the Canada pension plan, would you not agree that if that $17 billion was put back into the fund it would pay out benefits for a longer period of time than if we were just to use the money that is in the fund now and wipe out the $17 billion? There are different ways of putting points across. I understand what you are saying but I still don't fully understand the reason that $17 billion isn't meaningful in a fund that the contributors put there in the first place.

Mr. Stouffer: I am not sure that I understand all of your--first of all, let me clarify one point. I think in the discussion of PURS, we are not talking about removing the Canada pension plan. We are talking about introducing PURS instead of expanding the Canada pension plan, so we are taking it that the Canada pension plan is going to remain at least as it is.

Mr. Riddell: Okay, let's take that example. If it remains as is and we adopt the PURS program on a universal basis, then would the replenishment of that fund with the $17 billion not pay benefits out over a longer period of time without having to look for an increase in the contribution rate if indeed we are going to keep the pension fund liquid, so to speak.

Mr. Stouffer: Let me answer it this way. Suppose we maintain the contribution rate to the Canada pension plan at this present level of 3.6 per cent, how long do things last? On that basis first off, in 1985 or 1986 that would be the first year that the contributions flowing in would not be sufficient to pay the benefits going out. At that moment in time, the interest on the fund would have to start to be repaid by the provinces or whoever borrowed the money from the fund. They would start paying the interest in and probably that interest would be used to pay benefits. By the year 1991, the fund would have reached its maximum and at that point the benefits would be equal to the 3.6 contributions coming in plus all of the investment income of the fund. From that moment in time on, the fund would begin to be depleted so that by 2003 there would be no fund at all.

Mr. Riddell: But when you say all of the investment in the fund you are including the $17 billion?

Mr. Stouffer: Oh yes--everything that we have got and everything that would accrue between now and 1991. So in a matter

of 12 years the fund would go to zero and that is with, of course, the continuing 3.6 per cent. At that moment in time, the contribution rate would have to rise immediately to something like 5.3 per cent from our estimates now and then it would move up dramatically and quickly. What level it would move up to would depend significantly upon fertility rates that actually occur over the next 20 to 25 years. But if you follow the Economic Council of Canada figures, you could be faced with contribution levels in the order of up to 15 per cent by the year 2031.

If we don't have an improvement in fertility rates that action of winding down the fund to zero in 2003 would mean that we would be locked into contribution rates as high as 15 per cent by the year 2030 perhaps. If we have better fertility, if we have fertility rates that the royal commission suggests, the contribution rate would be about 9.5 per cent. If we have even better rates than that it might be down to seven or eight per cent. We do not know. But the point is if we do not have a fund we have no protection; we have nothing to draw down at that time to help soften those contribution rates.

Mr. Riddell: I understand all that. I will end up with the point that you are alleged to have made in this article--I do not know whether you did or not; you say you were taken out of context. I still say there is some element of validity to what you said when you said that it may well be that the employers and employees will have to pay higher Canada pension plan contributions sooner because Ontario does not intend to repay the $9 billion, or the other provinces on a Canada-wide basis do not intend to pay the $17 billion. So there is some element of validity in that statement.

Mr. Stouffer: Not the way it is presented there.

Mr. Gillies: If Mr. Riddell is finished, Mr. Chairman, I would like to comment.

Mr. Chairman: I think you are the next one, Mr. Gillies.

Mr. Gillies: Mr. Chairman, very briefly, I would like to zero in on several of the points Mr. Stouffer made because I think this is very important in that this issue has come up at least half a dozen times in this committee. I really think that we could lay it to rest and better use some of our time and energy in some of the work that we have to do. What I heard you say, Mr. Stouffer, is that the borrowing, pay-back and rollover practice that this province and other provinces have exercised with regard to the Canada pension plan is quite usual, and is quite in keeping with the investment policies of other pension plans, be they private or public sector. Did I hear that correctly, sir?

Mr. Stouffer: What I said was that in a private pension plan the pension plan buys debentures, that sort of thing, from a corporation, not its own debt. When that corporate debt matures those funds are available to buy new corporate debt, and they may very well be debt of the same corporation they had originally. That is what I said.

Mr. Gillies: So there is a striking parallel between what

the government of Ontario and the other provincial governments have been doing as to the performance of an investment in any other pension plan. There is quite a striking parallel.

Mr. Stouffer: There is a parallel.

Mr. Gillies: Right. I also heard you say, sir, that the government of Ontario has been paying back an interest rate on those funds that is 0.3 per cent lower than they may have garnered in the private market.

Mr. Stouffer: That is true for, I believe--

Mr. Riddell: For one year.

Mr. Gillies: That is an average for one year, again, strikingly close.

Mr. Stouffer: Strikingly close right through.

Mr. Gillies: I would suggest, Mr. Chairman, although this is certainly not incumbent on what you said Mr. Stouffer, that those funds borrowed by the provinces were used to provide services for the people that those provinces represent. I would hazard a guess that with that money one heck of a lot of hospitals, schools, highways and whatever other services that the provinces are responsible for, were constructed.

I think that the point Mr. Riddell makes is well taken, but I would remind members of this committee that Mr. Peterson said in the fall of last year that the province's handling of Canada pension plan funds was--and I believe this is an exact quote--"tantamount to theft." I really think it is about time that was put to rest. The handling of those funds, the uses to which they were put, the interest rate that they garnered is quite proper and, in fact, probably a benefit to the people of this province.

Mr. Haggerty: Yes, I can think of all the schools that are closed now--that have not been paid for yet.

Mr. Riddell: Notwithstanding the tremendous reduction in social services right now.

Mr. Chairman: Mr. Williams, do you want to bring some decorum to this meeting?

Mr. Williams: I just want to pursue the matter further because the allegations that Mr. Riddell made yesterday were pretty serious. I think Mr. Stouffer has indicated that the impressions that were left with us yesterday were incorrect.

There were two essential points that were alleged yesterday. One, as I understood it, is that the province of Ontario was somehow in default in its arrangements with the federal authorities relative to the borrowings of the Canada pension plan funds. I understood you to say a few moments ago, Mr. Stouffer, that under those contractual arrangements the province is performing totally in accordance with those agreements. Am I correct in that statement?

12:20 p.m.

Mr. Stouffer: That is correct.

Mr. Williams: Could you advise us as to what the status is of those contracts at this time?

As I recall from our earlier sessions we went into this at some depth because, as my colleague has said, Mr. Peterson made these same charges and they were proven to be factually incorrect. We discussed these agreements and because the charge has been made again we have to go through the process again and sort out fact from fiction. So I would like to know whether, in fact, the province of Ontario is in any way in default on payments of interest, whether any principal payments have yet to come due, and if not, when do the principal payments become due? Coming to the other central point of the charges that were laid, has the Treasurer (Mr. F. S. Miller), you or anyone else stated as a matter of government policy that this government will not repay the borrowings it has made from the federal authorities from the CPP fund?

Mr. Stouffer: The province of Ontario is not in default in any of the contractual arrangements that we have. The first debenture comes due 20 years after the inception of the CPP in 1966, so that is 1986, and during each year thereafter. Ontario has every intention of making its commitment at that time.

In regard to the statements by the Treasurer or myself, I really cannot speak for the Treasurer but as far as I can recall I have never indicated that the province would not pay back the money. I have indicated that the province has the right to reborrow the money. That has been taken to mean it would not repay the money. However, I think you can understand that there is a substantial difference between saying the provinces would not repay the money and saying the provinces have the right to reborrow the funds if they are available.

Mr. Riddell: All the difference in the world. And, Mr. Chairman, as is the usual custom with my good colleague across the way, he likes to take you out of context. The charge I made--and I used an example--was that any person, individual, organization, association, government, I do not care what it is, any one who borrows money and has no intention of paying back that money is in default. That is the point I tried to make and I used the example of farming. If a farmer borrows $500,000 from the bank, he borrows it knowing damned well that he is going to have to pay that money back. Any other thinking means that he is in default. I do not care what anyone says. That is the point I was trying to make. You are telling us different. You are saying the government has every intention of paying it back--

Mr. Chairman: And does.

Mr. Riddell: --and does, and that they are simply going to reborrow. That is a different situation. But the statement that was made to us, we understood the Treasurer to state that he had no

intention of paying back the money borrowed out of that fund. What you are saying, and what he allegedly said, to my way of thinking are two different things.

Mr. Chairman: It is like revolving credit at a store where you continue paying but you are continually in debt as well.

Mr. Riddell: Right. Sure.

Mr. Chairman: That does not mean that the obligation to repay is not there.

Mr. Riddell: You know in your revolving credit at some time it has to be paid back, whether you do pay it, whether your son pays it or whether his son pays it.

Mr. Williams: The other point I wanted to make for the benefit of my good friend across the way, so that there is no misunderstanding again, is the impression left with us yesterday through his comments, and again today, was that somehow the borrowings that have been made under these agreements between the federal and provincial authorities that are in good standing at this time, has somehow imposed an add-on cost to the contributors to CPP.

From your comments to that allegation it is my understanding that it is clearly attributable solely to the fact that, because of the demographics of the situation, the benefit drawdowns are going to accelerate and, because it is not a fully funded plan, it is going to necessitate additional contributions to meet those additional payout benefits. It has nothing to do with the borrowing arrangements whatsoever.

Am I correct in that understanding? That was the other very strong allegation made, which to my mind--and you have confirmed it--is without foundation and fact.

Mr. Haggerty: I think the point Mr. Riddell was trying to make is that because of the preferred interest rate that the province can borrow from Canada pension, if it was permitted to go into an funding for investment purposes it would generate a higher interest rate. If you obtain a higher interest rate, then you are going to have more funding provided to the Canada pension in the sense that you don't have to increase the contributors' portion to the cost of roughly the pension scheme.

The question I wanted to ask Mr. Stouffer was, just what interest rate was the province of Ontario paying? Give it to me in numbers. What was it in 1976, for example?

Mr. Stouffer: I can't tell you right off the top of my head. It is available in the public accounts.

Mr. Haggerty: Maybe the policy has changed and the province has to pay a higher interest rate for borrowed money in the last three or four years.

Mr. Stouffer: No. Let me explain it. The formula was carved in stone right from the beginning of time.

Mr. Haggerty: I think this is the point Mr. Riddell is getting at. If you could get it at--

Mr. Riddell: Let's drop it. If he wants to read it the way he wants to read it, forget it.

Mr. Williams: I am just wanting to stick with the facts.

Mr. Chairman: There is no point in being argumentative about this. I have heard the Treasurer say, and again I can be accused of misquoting, but--

Interjections.

Mr. Chairman: Gentlemen, there is no point in being argumentative. I understand the Treasurer is currently thinking he hasn't any objection to paying whatever the interest rates are in the marketplace.

Mr. Haggerty: No, but if the interest rate is locked in at six per cent or five per cent, why who wouldn't go on it. It is a good deal. It is almost like not paying it back.

Mr. Chairman: If the differential is currently only a third of a percentage point I can see where maybe he is not too concerned about a commitment to match the open market rate.

Mr. Haggerty: Just reading from this document for example, the federal bond yield for 1976, government of Canada bond yield averages 9.16, and average interest rates earned by Canada pension investment fund is 9.06. But if the province is getting it at less than that--

Mr. Stouffer: That would be exactly--

Mr. Jones: No. That is what the province would be paying.

Mr. Haggerty: I don't think you would consider it an investment fund of the province. I am talking about their portion, the 50 per cent that remains with the federal government.

Mr. Stouffer: But essentially nothing remains with the federal government.

Mr. Haggerty: That information should be here, if you have got those figures for interest rates which you were paying in the last 10 years, year by year.

Mr. Stouffer: Those are all in the public accounts.

12:30 p.m.

Mr. Chairman: We can get those figures. Mr. Stouffer, I was wondering if you have a letter of clarification or explanation if you would make it available to the committee for distribution so

that we will have something on record, apart from our discussions today?

Mr. Williams: Give him a copy of Hansard.

Mr. Gillies: I think what Mr. Stouffer said today was crystal clear.

Mr. Chairman: I believe Mr. Stouffer volunteered a letter--

Mr. Riddell: The only change of difference in our philosophy, Mr. Williams, is that we believe government should be responsible for the taxpayers' money. That is something you don't understand.

Mr. Williams: That's why we have been in power for 40 years.

Mr. Riddell: Yes, but that is coming to an end. We won't have to listen to that kind of crap.

Mr. Chairman: Mr. Riddell, it is getting on to time for adjournment, you are correct. Are there further questions of Mr. Stouffer?

Mr. Williams: After lunch?

Mr. Chairman: I am wondering if you have further questions.

Mr. Williams: I have some questions.

Mr. Chairman: Do you? Then the committee will stand adjourned until two o'clock.

The committee recessed at 12:31 p.m.

SELECT COMMITTEE ON PENSIONS

REVIEW

THURSDAY, JANUARY 7, 1982

Afternoon sitting

SELECT COMMITTEE ON PENSIONS

CHAIRMAN: Taylor, J. A. (Prince Edward-Lennox PC)
Brandt, A. S. (Sarnia PC)
Cousens, D. (York Centre PC)
Cureatz, S. L.; Deputy Speaker (Durham East PC)
Gillies, P. A. (Brantford PC)
Haggerty, R. (Erie L)
Jones, T. (Mississauga North PC)
Mackenzie, R. W. (Hamilton East NDP)
McClellan, R. A. (Bellwoods NDP)
Riddell, J. K. (Huron-Middlesex L)
Van Horne, R. G. (London North L)

Clerk: White, G.

Researcher: O'Mara, Dr. J., Legislative Research Service

Consultant: Bentley, W., Superintendent of Pensions, Pension Commission of Ontario

Witnesses:
LaRochelle, A., Director, Canadian Institute of Religion and Gerontology

From INDEX NOW:
Campbell, A.
Nancarrow, A.

LEGISLATURE OF ONTARIO

SELECT COMMITTEE ON PENSIONS

Thursday, January 14, 1982

The committee met at 10:11 a.m. in room No. 151.

REVIEW
(continued)

Mr. Chairman: I call the meeting to order.

We had Mr. David Stouffer with us the other day, the senior budget adviser with the Ministry of Treasury and Economics, and I have now heard from him in regard to the Caisse de dépôt. Maybe I could read his short memorandum, which addresses some of the queries that were put to the committee. It states:

"Further to the discussion at the select committee session on January 7, 1982, I looked into the proportion of the holdings of the Quebec Caisse de dépôt in government securities. As of the end of 1980, the caisse had invested $6,145,000,000 in bonds issued or guaranteed by the province of Quebec. This does not include investments in municipal bonds not guaranteed by the province. The total fund invested was $11,508,000,000. Thus, about 53 per cent was invested in provincial bonds."

That is that information, and I gather he is putting together some additional material we requested, and I hope that will be forthcoming shortly.

Mr. Brandt: Mr. Chairman, what was the estimate for the Canada pension plan? The total amount available--was it in the range of $30 billion? I am trying to relate the two figures.

Mr. Chairman: On a Canada-wide basis?

Mr. Brandt: Yes. That number has been mentioned in the past, but I can't recall what it was.

Mr. Chairman I would not venture a guess. I don't know whether Mr. Bentley could.

Mr. Bentley: Neither would I venture. I'd have to go and look it up.

Mr. Brandt: I was trying to relate it either on a per capita basis or to the size of Quebec to see how it was performing in terms of total available funds with the CPP. I don't know that it is that far out, necessarily, but I just can't recall that other figure.

Mr. Bentley: I can't remember.

Mr. Mackenzie: Is the inference in those figures, Mr. Chairman, that, out of the $11.5 billion, $6 billion is in government bonds, and the balance is invested in the private sector?

I do not think that we had talked at great length in the earlier sessions about the Quebec plan. One of the features of the Quebec plan that most certainly will be a key element of the PURS plan as far as distinguishing it from the Canada pension plan is concerned is the fact that the money flowing into the plan will be directed into the private sector, as contrasted to the public sector which we were talking about this morning with regard to CPP.

I understand that certainly a significant portion of that plan also moves its funds about in that same private sector. That is one difference between the provincial Quebec plan and the federal plan. There may be others.

I am just wondering whether the PURS plan has been lined up against the Quebec experience to see if there is anything that can be drawn on from the Quebec plan to address some of the deficiencies that have now been identified in the PURS plan if we were to continue pursuing the idea of implementing PURS, if it was determined that the advantages of the PURS plan outweighed the disadvantages of PURS and whether those disadvantages could be further minimized by application of some of the pluses of the Quebec plan. It is a long way of stating the point, but I hope you gather what I am driving at, Mr. Stouffer.

Mr. Stouffer: First off, a couple of comments about the Quebec pension plan. The retirement benefits under the Quebec pension plan are virtually identical to the retirement benefits available under the Canada pension plan. So there is a kind of a transferability there that is available. The plans are more or less homogeneous.

One distinct difference is in the disability benefits and in the survivorship and dependents benefits which on those particular kinds of benefits are, you might say, peripheral. There is a large expenditure on them but they are more or less peripheral to the main purpose of the plan which is to provide retirement income. At the retirement income level the two plans, the Quebec pension plan and the CPP, are virtually the same.

When we come to talk about the PURS arrangement, I think you have to recognize that the pension problem is not just an Ontario problem. It is a national problem. PURS is a mandated, government-sponsored, you might say, pension plan so that it takes on the characteristics of a government program. A question is, if the other provinces were to see the problem in the same way and react in the same way and also decide to expand government programs to solve those particular problems that PURS solves, then the possibility could be that we would have 10 different little plans. What is the importance of having those plans more or less comparable?

I think it comes back to the fact that portability is a key requirement, that the plan be portable. There is a great deal of mobility between provinces. There is a great deal of interprovincial mobility of the labour force, so consequently if the plans are to solve a particular national problem, somehow or other, the plans have to be able to provide for portability between the provinces.

The simplest way to do that is to have a similar plan in each province. That is not a necessary condition. Different kinds of plans could exist but it would be better, it would be preferable certainly, to have comparable plans in each of the other provinces. I would say that, yes, you could run PURS in Ontario on its own, like QPP, but it would be unlikely it would work as well as if the system were the same in each province.

In regard to whether we have looked at drawing on the experience of the QPP to see whether some of the problems they encountered with having their own separate plan, some of the solutions to those problems could be worked in Ontario, I would have to say no, we have not looked at that. That has not been a part of our concern at this time anyway, not until there is a direction to move along the lines of adopting a PURS-type arrangement.

I don't think we would get involved with examining that particular type of experience. All these problems are solvable, I suppose, but you are looking at a national problem. I think when it comes to the government provision of retirement benefits it will probably be a national solution, a federal government program or a uniform program in the provinces.

2:20 p.m.

Mr. Williams: I hope we are all of the same mind that a uniform program across the country is certainly more workable, whether it is uniform or comparable, as you use the term. That is certainly desirable. I don't think any of us would argue with that point. But it seemed to me you said the stacking up of the Quebec plan against the PURS plan is something one would want to do to be able to draw on the experience and benefits of the Quebec plan as a separate provincial plan, and that could be done after it was decided to go ahead with PURS.

I would have thought, like yourself, that the royal commission--I was trying to find their references to the Quebec pension plan--might have done a thorough analysis of the QPP to assist them in devising the PURS concept and extracting from the Quebec plan any of the benefits they saw existing there that did not exist in CPP and that would be better designed to accommodate the type of vehicle contemplated in PURS.

Mr. Stouffer: For the royal commission's purposes, I really do not see that there is a significant difference between the QPP and the CPP. The advantages of the QPP or benefits that are better in the QPP than in CPP really are not addressed at all in the PURS question. They are more of a social insurance benefit than a pension benefit. Death benefits, disability benefits and survivorship benefits are the key differences, and they really do not enter into the thinking behind PURS at all.

Mr. Williams: In the Quebec plan, was I right in the observation that, to my understanding, a goodly portion of the premiums received under that plan are reallocated into the private sector, as contrasted to the public sector in the federal scheme? I

know some of that money certainly finds its way into provincial government programs down there.

Mr. Stouffer: Of course, the Quebec pension funds are channelled through the Caisse de dépôt, which is essentially the holding organization for those bonds. The investments are done by the Caisse de dépôt.

Mr. Williams: That is a provincial agency, is it?

Mr. Stouffer: That's right.

Mr. Williams: I see.

Mr. Stouffer: I don't have the figures here in front of me, but it runs in my mind that loans to the provincial government are about 70 per cent, somewhere in that area, of the fund. Quite a substantial percentage of the fund is invested in government securities.

Mr. Williams: So the bulk of it is, indeed, also kept in the public rather than the private sector, although some flexibility exists there that does not in the federal plan.

Mr. Stouffer: I believe they buy marketable securities and that sort of thing. Again, I cannot tell you the exact percentage, but it is quite substantial.

Mr. Jones: Is that the vehicle the province used to buy a controlling interest in Domtar?

Mr. Stouffer: That is right. The Caisse de dépôt also holds the public sector pension funds as well as the Quebec pension plan funds.

Mr. Williams: What pension funds are you referring to? The civil service organization or whatever it is down there, or other crown agencies?

Mr. Stouffer: That's right.

Mr. Chairman: There is much more centralization of economic power in the Quebec than, say, in Ontario in terms of government.

Mr. Stouffer: Certainly, in connection with the investment philosophy or policies and the creation of the Caisse de dépôt, yes, there is a large difference between Ontario and Quebec as far as the concentration of economic power is concerned.

Mr. Williams: I was under the impression there was more direction of those Quebec dollars into the private sector, but I see now that is not so.

Mr. Stouffer: I would be happy to look up that number for you.

Mr. Williams: Yes, because certainly our PURS program is

very different from that concept in that we generate all the money in the private sector.

I just wanted to be certain there was not something there we had overlooked in weighing the pros and cons of the PURS system by not having looked at some existing provincial program, and being sure there was not something that either the royal commission had neglected or we had neglected to draw upon as a means of improving any deficiencies in any system we were going to consider putting forward as a proposal by this committee. That is all I have on that particular point, Mr. Chairman.

Just as a postscript, I guess the Manitoba system is so new there is nothing we can talk about there.

Mr. Stouffer: It is also voluntary.

Mr. Williams: Yes, right. It is an entirely different vehicle again. I guess it would be somewhat more akin--no, it would not be akin to PURS, it would be more akin to the third option we have to consider, that is, allowing the private sector to handle the whole thing.

Mr. Chairman: That might change in Manitoba, too. I would assume there could be a different approach with the new government there. Have you finished your questioning, Mr. Williams?

Mr. Williams: While we are speaking here of the provinces, this came up the other day. There was some question as to whether the other provinces would really be onside if PURS went ahead, or as to the likelihood of them getting onside. When you do a breakdown of the provinces in population concentration, it is basically one third Quebec, one third Ontario and one third the rest of the country. We know Quebec is already in its own camp as far as pensions are concerned. If Ontario went a PURS route it would be a question of the other third. I suppose it would be a question of determining what portion of the remaining third would be likely to reinforce the universality of this provincial plan if it was implemented.

I gather the maritime provinces are really playing a waiting game to see what happens at the federal-provincial level while the western provinces have, to the extent we are aware of, ventured in their own directions. But let us look at the scenario if Ontario went PURS. There might be some likelihood of us also bringing in the maritime provinces, which would perhaps make up close to a half. It would certainly be more than one third of the population of the country. I wonder if that would give some added strength to the PURS concept and, if that scenario was played out, whether it would be likely to influence the remaining western provinces.

Mr. Mackenzie: The Maritimes are a little sharper.

Mr. Williams: I think we can actually give them a lot of credit. They like to sit back and assess the options and watch what is happening rather than rushing into some of these programs. We have noticed they more often than not follow Ontario.

2:30 p.m.

Mr. Mackenzie: If we took some initiative in the national plans we now have in this province and showed some leadership, all the provinces might fall in line much quicker than they would with PURS.

Mr. Williams: I think the Maritimes more often than not follow the Ontario lead in all areas of government initiatives, but in any event, coming back to the observations I have made, would you like to comment at all, Mr. Stouffer?

Mr. Stouffer: I really can't make too many comments. I think if PURS is acceptable to Ontario it could well be acceptable to the other provinces, but it should be accepted on its merits.

The other thing you brought up was the Quebec government has not exactly announced, but has indicated, there will likely be substantial changes to the QPP. That raises quite a different possibility in that, if there is to be a preservation of this interrelationship between the CPP and the QPP, that action could very well lead to changes in the QPP rather than to an acceptance of PURS by other provinces. The whole area is very nebulous until we come to the general directions that are acceptable to all provinces for pension reform. We can certainly lead, but I think Ontario's lead is affected by so many other things, the actions in Quebec, the actions of the federal government, and we indeed may not be able to carry a position we find acceptable right through the country.

Mr. Chairman: If I could interject for a moment, Mr. Stouffer, on the point that you make, that is, the changes in the Quebec pension plan could eliminate the need for a PURS-type program in that province. You seem to have accepted that, if I understand you correctly. If that is so and preferable in Quebec, what is the argument for doing the same in the other provinces without stacking plans?

Mr. Stouffer: The Quebec solution to the problem of the lower-income individual, let's say, may not be the kind of solution the rest of Canada would accept. I am thinking of the Cofirentes+ report where an enhanced redistribution from the higher incomes to the lower incomes is suggested.

You will recall when we were talking this morning I indicated that in the Canada pension plan there was intergenerational transfer and that had been tolerated, at least up until now, but there wasn't intragenerational transfer, that is transfers from the wealthier members of society to the poorer members of society, and the insurance principles, that benefits would be related to income earned, were maintained in the design of the Canada pension plan.

What Quebec proposed to do was to shift that so that there would be intragenerational transfers. In other words, on the first 50 per cent of the average industrial wage, instead of having a 25 per cent benefit, there would be a 50 per cent benefit, but the contribution related to that part of the earnings would be no

different from the contribution rate related to the second half, that is, the part between one half times the average industrial wage and the full average industrial wage. So there is a kind of redistribution going on here now in the Quebec pension plan or in the proposal of the Cofirentes for distribution from the higher earners to the lower earners. Now that may or may not be acceptable to the rest of Canada, I don't know, without other kinds of wrinkles.

Mr. Williams: Where is that report at the moment?

Mr. Stouffer: That report was tabled a couple of years ago.

Mr. Williams: They have not really taken any serious action on that. It is just sitting on the back burner, isn't it?

Mr. Stouffer: I am not sure now.

Mr. Chairman: Mr. Stouffer, carrying on with the question I asked, I think you are getting decoyed into more a socioeconomic aspect of the Quebec pension plan than you are of the pension aspect per se. In Quebec it is a Socialist government, and I can understand its philosophy being reflected--

Mr. Mackenzie: I have grave reservations about accepting that totally.

Mr. Chairman: It is not a Socialist government?

Mr. Mackenzie: I don't think so.

Mr. Chairman: I will leave that for another time then. May I say that it has manifested some of the Socialist symptoms?

Leaving the social engineering and the homogenization process aside for the moment, I was touching on the raison d'être of absorbing the PURS program into the Canada pension plan--in other words, strictly the pension benefits, leaving aside the disability pensions or whatever. The point I am trying to determine is whether that could be more simply accomplished--that is, the PURS goal could be more simply accomplished within the Canada pension plan system than having a separate system. That is what I am getting at.

Mr. Stouffer: If the goal is to improve the replacement income for the majority of Canadians, then the Canada pension plan is as good as or perhaps better than the PURS arrangement. The administration is in place, the benefit formulas are in place related to earnings, the benefits are indexed. You simply just have to increase the 25 per cent benefit formula to something higher, and you accomplish from the benefits side virtually everything that you can do with PURS, so from that perspective the CPP is as good a solution as PURS.

If the intention in PURS is to give people an opportunity to save and watch those savings, then that is something the CPP does not do. If you want to directly relate the amount of benefit earned to the contribution paid, the CPP does not do that; PURS does. PURS

really emphasizes the investment and the cost side of the plan. The Canada pension plan's financing is not discussed, of course; it was not discussed today; but the problems that are created for the Canada pension plan lie not so much on the benefits side as on the financing and who pays for the benefit, that sort of thing--what is done with the money. So you have two things: CPP, simple benefit arrangements and administration, perhaps more difficult financing questions; PURS, relatively simplified financing questions but the benefit is left in question--what the level is actually going to be, in the way of parity between people and all those things that were discussed.

Mr. Chairman: And what the effective benefit would be at the time of retirement--

Mr. Stouffer: Yes.

Mr. Chairman: --because it is a fixed percentage--two per cent, a small per cent of income, isn't it? Two and two?

Mr. Stouffer: That's right.

Mr. Chairman: And you don't know what that is going to buy.

2:40 p.m.

Mr. Haggerty: I am sure the members of the pension plan we have here wouldn't take any funds out of that to put it into this PURS program. I think that is what the chairman is saying. He wouldn't take any of his investment out of his present scheme that he has in his pension to invest in the PURS program.

Mr. Chairman: Well, Mr. Williams has volunteered.

Mr. Haggerty: Let him volunteer then. If he wants to stick his neck out, let him go ahead.

Mr. Chairman: Let the record show latitude.

Mr. Haggerty: There is no guarantee of any returns.

Mr. Chairman: I guess another problem, Mr. Stouffer, is if you are looking 47 years down the road for the plan to mature, a lot can happen in terms of such things as industrial robots and the concept of work and labour and I guess sharing of wealth or how wealth is produced. That is half a century from now. Everything is changing so quickly that it is very difficult to plan a half century hence.

Mr. Haggerty: We may have robots sitting right in here.

Mr. Chairman: I am sure that in many cases--

Mr. Haggerty: --all we need for members.

Mr. Chairman: I agree. I think in many cases you can have

mannequins in the House with electronic buttons that one can push to--

Mr. Mackenzie: I thought we had that already.

Mr. Chairman: Maybe their eyes could light up instead of their hands.

Mr. Haggerty: These are the things we can look to in time--

Mr. Chairman: As a matter of fact, Mr. Mackenzie, I have often suggested we might do better by calling public tenders to run government. That would give your friends the opportunity in the free marketplace to submit a tender.

Mr. Mackenzie: I don't object to the free market as long as it is not what rules.

Mr. Chairman: As long as you make the rules, eh?

Mr. Mackenzie: As long as the people make the rules.

Mr. Chairman: You are smarter than that. I think what you suggested, Mr. Stouffer, is that if you are going to tamper with the Canada pension plan it would be either that or PURS, not both. Do I read you correctly in that?

Mr. Stouffer: That would seem to be a reasonable way to go. I can't see if you expanded the Canada pension plan why you would need PURS or if you brought in an effective level of PURS why you would need an expansion of the CPP. I think they are exclusive in that sense. It's one or the other if you want to do something at all. There are three alternatives: change the CPP, introduce something like PURS or don't do anything in this area at this time.

Mr. Gillies: Mr. Chairman, one other slight difference just on this point comes to mind. Yesterday, as I recall, there was a suggestion that at least one model of PURS would allow a group to opt out if the system it had was superior to the standard set by PURS and of a certain type. They may be allowed to opt out and continue on their merry way. Can you think, Mr. Stouffer, of any mechanism if we were to opt for an enriched CPP by which that might be accomplished? How does that work in that regard in this new scheme in Manitoba--or does it?

Mr. Stouffer: The scheme in Manitoba is voluntary.

Mr. Gillies: Voluntary anyway so you don't go into it unless it is clearly superior to what you already have.

Mr. Stouffer: I think you have hit upon something that is unique to PURS in that in a sense there is some kind of target. Let me explain the point rather carefully here. If you expanded the Canada pension plan, everybody is affected whether or not they are in an employment pension plan.

The way an expanded CPP would likely be accommodated in a

private employment pension plan would be for the private employment pension plan to change its benefit structure so that there would be an integration of the improvement in the Canada pension plan.

Mr. Bentley: I used the word "co-ordination" so he uses "integration." It is the same thing.

Mr. Stouffer: In the case of the provincial universal retirement system, with the opportunity for the employer with an acceptable private pension plan to opt out, then to some extent the impacts are a bit different in the sense that there would not be the same displacement of a private pension system as there would be with the CPP expansion. You might say that effectively targets the plan a little better towards the individuals who are not now covered by a pension plan, or covered by a very poor pension plan. That is one of the advantages that I can see for a PURS arrangement.

Mr. Gillies: This brings me back to the thought I made yesterday actually. I think of PURS more as a standard, as a floor, and if a corporate group or an employee group wished not to participate, then one option that is available to it is to come up with a scheme that is better if it wants to go its own way. So I tend to think of PURS as a floor rather than an add-on or a ceiling.

It just occurred to me that there is a little flexibility there that may not be available under an enriched CPP.

Mr. Stouffer: The other thing that I want to point out about the CPP was that you asked if there could be some kind of offset provision built into the Canada pension plan. I am sure that could be accommodated some way, but the key point here is that the offset would be very simple if the increase in the Canada pension plan were appropriately financed, wholly cost-funded.

But if it were operated on a reduced level of funding, for example, a pay-as-you-go kind of approach, there would be little incentive for the employer to provide benefits in his plan which had to be fully financed when he could essentially purchase those same benefits for, say, half the cost or less through the Canada pension plan. So it would seem to me to be very unlikely that there would be any viability for opting out of a CPP-type arrangement unless the CPP benefits were fully funded.

Another point here is, if they were to be fully funded, the phasing-in question becomes significant as well because it might, indeed, be fully funded and phased in over a 47-year period, which PURS does. That would be unlikely from a political perspective. That is a possibility.

Mr. Chairman: Then you have the problem of a massive capital pool.

Mr. Stouffer: Yes, that is right.

Mr. Gillies: What was the figure we heard in our fall briefing? By about the year 2030 it would be something like $9 trillion. It was more money than exists in the country right now, I know that.

Mr. Chairman: Those printing presses can run off the dollars.

Mr. Gillies: That is the concern. I think we agreed in the committee that the Canada pension plan would probably continue whether it is enriched or not. If it continues it will continue more or less on the basis that it has, that there be a more or less pay-as-you-go arrangement because the pool of capital created for the fund would be absolutely enormous.

Mr. Stouffer: I am not sure what the other provinces would say if the financing would enhance the Canada pension plan--I really could not say. You must remember that changes to the Canada pension plan are a matter for all the provinces to decide. But I sense a feeling that if there were to be improvements in the CPP they should be put on a much stronger financing basis than they are now.

Mr. Riddell: Suppose we get back to one or the other and then a combination of the two. I want to go back to your comparison of the PURS program and an enriched Canada pension program. It seemed to me you said that PURS is a good program for people who wanted to watch their savings--something to do with their savings. It would indicate to me that if we were to adopt the PURS concept, what we are doing is we are making it mandatory for people to invest in a program that we as a government have implemented, so to speak.

2:50 p.m.

As somebody with a free enterprise mentality, I am wondering if governments should be mandating investment programs. If, indeed, we can enrich the Canada pension program to do an adequate job, which I believe you said, that with some reform of the Canada pension program we could provide an adequate pension. The financing may be a problem, I believe you indicated, whereas the financing of the PURS program would not give us the same difficulty. Am I reading you right?

Mr. Stouffer: I think there is one other thing you should consider here as well. Do you really need another tier of the program with 100 per cent coverage? We indicated earlier that the old age supplement, the guaranteed income supplement, CPP and the guaranteed annual income system benefits protected fairly well people below the average industrial wage, whose lifetime earnings are below the average industrial wage, with the exception of the single elderly.

If you want to target expenditures in one direction, you would have to target them very specifically. You can address the problems with the existing elderly quite directly by changes to GIS and the Gains program, or maybe even the OAS. It is not just a CPP problem. If you did that you may not want to make any changes at all to the level of the CPP or to introduce a PURS program. So there is quite a range of possibilities here. I think you have to recognize there is a difference in philosophy.

The royal commission comes very strongly on the position of individualism. The individual has the responsibility to look after himself. From there you go on and say, "How far does the state look after you?" If the state looks after you through a contributory program that is one degree, or it could simply be a guaranteed income supplement type of program where there was income offset. That is, if you had income in your own right you would not need income from government. I am trying to describe it as an income-tested program. It would be at the far end of the spectrum. So somewhere in there is where you solve the problem. Does that help answer your question?

Mr. Riddell: Really, with PURS it is not a case of helping people to help themselves; in other words, to prepare them for retirement life. It is forcing people--

Mr. Chairman: Forced savings.

Mr. Riddell: Yes, forced savings, forcing people to help themselves when they reach retirement. I guess that becomes a philosophical matter then.

Mr. Chairman: At one time, a person would put away a little money himself for a rainy day, even though he had to do without something he wanted to provide for a time when he needed it more.

Mr. Riddell: I guess we are assuming that, if we were to go the PURS route, we are assuming that a good many of the people in Ontario are not able to prepare for their retirement so we are going to do it for them.

Mr. Chairman: They cannot manage their own finances so they have to have government mandate that.

Mr. Riddell: Yes.

Mr. Chairman: Government breeds dependence, so I guess we are encouraging this kind of thing.

Mr. Riddell: But I am of the belief that maybe not enough throught is given on the part of particularly young people when they start into the work force. There is not enough thought given to their retirement until later on in life when maybe it is a little too late. This would maybe be a reason to mandate a program but we certainly have to give it a lot of thought.

Mr. Chairman: Mr. Cureatz, you had a question did you not?

Mr. Cureatz: No, Mr. Williams and I are just clearing up some final aspects of this, so I think I have resolved my problem.

Mr. Williams: Just one observation supplementary to what Mr. Gillies was saying--his observation that he considered the PURS program as the floor and the voluntary programs in the private sector would be enrichments of that floor. I suppose if we go to the other option, adopt the PURS concept and leave it to the private sector, then, as we were talking the other day in effect we

would have to mandate a certain floor to work from and guidelines if the private sector is going to be left alone in the field to enrich on top of the CPP.

We never said a certain base from which a private sector would be obliged to operate as far as providing minimum type of programs is conderned. So even with or without PURS, I suppose they are still looking at some type of base we would have to operate from.

Mr. Chairman: Is it a correct observation, I do not know, and you can tell me, is it that segment of the work force that is not unionized that really does not enjoy the most basic minimum pension provisions that would be provided for in PURS?

Mr. Stouffer: Coverage among nonunion employers is definitely lower. There is no question about that. Just to give you a little feeling for what industries are covered and what are not, here are some statistics for you on pension coverage by industry.

Mr. McClellan: What is the source of this?

Mr. Stouffer: It is all Statistics Canada information but we are going to put the information out here in a form that is usable by the committee.

Just to give you some illustrations: In the agricultural industry, one per cent of paid workers are covered. Let us move down to another one. In trade and commerce, 16 per cent are covered. In community, business and personal service, 25 per cent are covered. What you are talking about are industries that employ poorly paid workers. You are talking about industries that have a lot of part-time employment, service industries in particular, and industries where there is not very much unionization.

Let us move up: mines, quarries and oil wells, lots of unionization, lots of coverage, 68 per cent. In the transportation and communication areas, 51 per cent are covered. But quite a large number of the people who are involved in transportation, who are in the union areas, are included in public administration. For example, the Ontario municipal employees retirement system plan would include a lot of people working in the transportation area. So that sort of thing gives you some feeling for the types of employment that are covered and the types that are not.

Mr. Mackenzie: You have a better chance of a pension plan if you get one of those big bad unions in there.

Mr. Stouffer: That seems to be true.

Mr. Chairman: In terms of coverage, when you are dealing with coverage, Mr. Stouffer, we are assuming in your figures that a person would have to be within the plan for a certain number of years before he becomes a statistic.

Mr. Stouffer: If he is a member of a pension plan, that is how we consider him to be covered. He may not be vested, but--

Mr. Chairman: I am wondering when you are dealing with percentages whether a person actually enjoys the benefits of being classified and in fact they do not get a pension?

3 p.m.

Mr. Stouffer: They could very well be in these statistics as covered but never get a pension. That is the only way you can get a handle on it. You do not have data which says these people are in a vested status.

Mr. Bentley: I can answer that question. The information we provide to Statistics Canada includes only those employees who are members of the plan during a given year. So anybody who has not served the eligibility provision, under the terms of that employer's plan, is not included as a member.

Mr. Chairman: So he could be covered by a union contract and a union contract could provide for the pension benefits, but he would not enjoy the membership in the pension because he had not worked long enough.

Mr. Bentley: Normally in a union contract, if they are a member of the union they are immediately enrolled in the pension plan when it is negotiated, even from the first day it becomes effective. It is normally in the unilaterally established plans that there is a waiting period. That may be one year to five years as a normal waiting period or attainment of a certain age with a certain period of service. But in the negotiated plans that is not necessarily true.

Mr. Chairman: Do you have to be a member of the union?

Mr. Bentley: In a negotiated arrangement that was the principle of memberships.

Mr. Chairman: So you could have workmen who were not members of the union but are covered by the union contract.

Mr. Bentley: They would not necessarily be covered by that contract. They could be employed by that employer but not covered by that contract.

Mr. Chairman: So that membership might--

Mr. Mackenzie: A handful of conscientious objectors, but still are covered.

Mr. Bentley: That is right. But you could also have within an employer, for instance, the International Brotherhood of Electrical Workers negotiating a certain contract that only the members of the IBEW can be covered. If there is no contract for all the remaining employees, they are not necessarily covered in that particular class of the trade.

Mr. Chairman: So they would be covered or not, depending on whether a person could withhold his membership in a union because of ideological beliefs, or on the other hand, if the union

wishes not to take on an enlarged membership for one reason or another.

Mr. Bentley: There can be any number of reasons. What we do is get the information provided to us by the employer which gives the number of employees who are members of the plan at a given moment in time. There may be 100 employees but only 75 of them are members of the pension plan, for whatever reason they are not eligible to join, whether it is by choice, whether it is because they are not members of the union or because they have to serve a waiting period or whatever it happens to be.

In many cases you can have a situation where it is voluntary for the employee to join the employer's plan and some employees select not to join. So if there are 100 employees of that particular employer and only 50 of them elect to become members of the pension plan, all we get, and which we provide to Statistics Canada, is the 50 members. We do not have information on the total number of employees that employer may employ.

Mr. Chairman: So presumably there is a mobile force within that organization, for example, where a person has to get a work permit from the union to take on the job and yet he cannot become a member of the union because they do not want any more members.

Mr. Bentley: There can be any number of reasons. We do not analyse the reasons because all the information is provided to us which we provide to Statistics Canada. Our jurisdictions provide this information to Statistics Canada. It is just those employees who are members of the plan at a given moment in time, that is at the year-end of the pension plan and that is the time at which they have to report to us.

Mr. Chairman: Any further questions?

Mr. McClellan: Unfortunately, I had to be away most of the past two hours. You may have already talked about what I wanted to raise. It had to do with whether the Ministry of Treasury and Economics has estimated total costs in terms of percentage of payroll if the PURS program were adopted and all other things remained equal.

Mr. Stouffer: Simply an add-on?

Mr. McClellan: Yes. Mr. Bentley has been talking about the need to look at the totality of income support measures for retired citizens and not just one or two pieces. When we get into a discussion of costs, we are always saying, "If we increase the CPP, expand it to twice the current benefit level, we are going to have payroll costs of the order of 15 or 18 per cent, whichever estimate you follow."

I am interested in knowing if you have done any studies to estimate the total net cost if we adopted PURS, kept CPP at the current benefit level and maintained old age security and the residual guaranteed income supplement for nonworking, non-wage-earning retirees, and if you could tell us, even in a

ball-park way, what percentage of payroll we are talking about?

Mr. Stouffer: No, I haven't examined the costs of that part of the program at all, other than knowing there is going to be a two per cent charge to the employer and a two per cent charge to the employee. We haven't tried to trace yet the impact on government revenues, because those would be deductible from income. We simply haven't done that.

Mr. McClellan: So you haven't done any cost studies?

Mr. Stouffer: We are in the process of doing cost studies on many of the proposals that came out of the select committee in its interim report. We have had a project going on in that area for some time. It hasn't been completed yet.

Mr. McClellan: But you haven't started to do cost studies by way of background to federal-provincial pension discussions?

Mr. Stouffer: Not really, no.

Mr. Ilkiw: Just a comment with respect to the cost of existing plans: The Economic Council of Canada in its report, One in Three: Pensions for Canadians to 2030, forecasting under certain assumptions as to whether OAS and the GIS would grow just by the consumer price index or whether they would grow as a cost of percentage of the average industrial wage, forecast up to 2030 what percentage of gross national product would be allocated to these programs. It wouldn't be fair, for example, to express GIS and OAS costs as a percentage of payroll because that comes from general revenue on many tax bases.

Mr. McClellan: One of the reports--was it Cofirentes+? I don't have all my stuff here--one of the studies that has been done did attempt to--

Mr. Bentley: The Economic Council of Canada, I believe, did that.

Mr. McClellan: But didn't it try to talk about it in terms of percentage of raise?

Mr. Ilkiw: I believe the expression was "as a percentage of GNP" because it recognizes as well that CPP would come from an earnings base. But then OAS and GIS would come from general revenue. It made the assumption, I believe, that OAS and GIS, though normally indexed to the CPI, would be ad hoc increases to keep it at a relatively constant percentage of average industrial wage. So it isolated the demographic effects and then made assumptions on what happens if you lower the retirement age from 65 to 60 and forecast a different demographic scenario to find exactly how demography impacts on old age expenditure as a percentage of GNP. In terms of global expenditures, I think that is the only way you can do it.

Mr. McClellan: There isn't any validity in doing it in terms of payroll, even though it isn't directly deducted from payroll?

Mr. Ilkiw: Because the OAS and GIS are not taxed from payroll but rather from general revenue. OAS used to come from a two-two-two tax but no longer does.

3:10 p.m.

Mr. McClellan: At any rate, what I would like to be able to see, and I guess we probably can't get it, is a comparison of the total costs of various options and various mixes, so that if we have from the royal commission a fairly accurate cost estimate of what it would cost to double the benefits to the CPP, we can extrapolate what the costs of going the PURS route would be, four per cent plus, using the commission's assumptions of up to 9.6 per cent of payroll for the PURS plus CPP. But then we do not know how to fold in the costs of old age security plus the residual guaranteed income supplement, so I can't get a sense of what the commission is talking about in terms of total net cost for the proposals it is putting forward.

Mr. Stouffer: The question of cost is quite a slippery fish. If you look just at government programs, and you ask what government programs are going to cost you as a percentage of GNP, let's say--because we have to recognize any financing bases they rely upon, so the only common denominator that is acceptable is the GNP. So if we lock people into GIS and OAS and CPP and PURS--in a PURS arrangement we know what the percentage is right away because you define the contribution--then we can get a reasonable estimate of what government cost would be.

But on the other side, if you had private sector reforms, such as were suggested by the royal commission, what you could have is a move in your public sector plans to increase pensions, and a move to increase costs in private sector plans. What is going to happen is that collectively individuals and employers will come back and say: "Well, how can I adjust? What is my personal objective for how much retirement income I want and my other particular needs?"

If you push up the cost of public sector plans and expand coverage, voluntary arrangements are going to respond accordingly to try to come back to some percentage of their income allocated every year that is acceptable to them. So you really do not know how the private sector will respond, and it does not know how it is going to respond until it sees which way the governments jump. So the government proposals--if you give us a proposal, an explicit example, it would be relatively easy to do. But to find out the ultimate cost, once you bring in your private sector reforms, you have to make a lot of behaviour adjustment assumptions on how the private sector will respond to the additional cost.

Mr. McClellan: If we do not already have it, and we may well have it, could our research person put together the ECC stuff? We may already have it.

Mr. Stouffer: I'm sure you have it.

Mr. McClellan: There is still the question of telling me where to look for it.

Did you talk about the administrative consequences? I cannot imagine that--

Mr. Stouffer: Yes. We addressed that in the notes.

Mr. McClellan: You have an allusion to them in the notes?

Mr. Stouffer: We did not discuss them in any more depth than that.

Mr. McClellan: Just so I am clear that I understand what we are talking about, on page six, what would the central pension agency based in Ontario be? "Contributions would be remitted to and accounts administered by a central pension agency based in Ontario." Describe that, please.

Mr. Stouffer: Describe the central pension agency?

Mr. McClellan: Yes. Would it be an agency of the government of Ontario?

Mr. Stouffer: Again, this is what the royal commission has said here. I can only speculate.

Mr. McClellan: What is your understanding of what the royal commission is saying?

Mr. Stouffer: My understanding is--

Mr. Chairman: Who would head it?

Mr. Stouffer: Obviously the chairman of the select committee.

The central pension agency, as I understand it, would be perhaps something like the Pension Commission of Ontario, a commission or government agency of some type. I would not see it as being distinctly separate, at least as far as the administration side would be concerned. There might be a separate agency as far as the investment part of it is concerned. If the central pension agency is to collect premiums or contributions from employees, I would think it would be done somehow through the tax system, so the government would be involved in some way.

Mr. McClellan: So presumably we are talking about an agency accountable through a ministry to the Legislature?

Mr. Stouffer: I would think so.

Mr. McClellan: I just wanted to make sure I did understand that, that we were not talking about some kind of a private sector agency like London Life.

Mr. Stouffer: That certainly was not my understanding, no.

Mr. McClellan: So there would be clearly a duplication, as you say, if it had been established at the national level in parallel CPP administration. If it was set up at the provincial level, it would be an additional bureaucracy.

Mr. Stouffer: I am sure there are variations on that. In Quebec, the provincial government collects its own income tax. So it already has in place the vehicle that would be used for the administration of a plan like this. I suppose if Ontario were to collect its own income taxes, we would have that as well. You must remember I am simply setting down here what the royal commission has said in its notes.

I don't understand why you could not still collect the first contributions through the tax system, along with the provincial taxes you collect through the tax system, and remit that back. What you would not have would be access to the Canada pension plan accounts, I suppose. I am not sure, but there would probably be another tier of administration introduced there somewhere, if it weren't run by Health and Welfare.

Mr. McClellan: The chairman dealt right at the outset with the fundamental philosophical contradiction and, as I interpret it, it is still a contradiction, that the principal justification for going the PURS route rather than the public sector route was to preserve individual initiative. We are talking about a legislative program that would compel every citizen to participate. That is a leap of logic that remains beyond me.

I think its analysis leads to the conclusion that you can only solve the pension problems it identifies by relying upon the Canada pension plan but, in fact, it is reluctant to direct that amount of money into the public sector, so it had to come up with something that solved the pension problem but also left the money in the private sector, for what it is worth.

I would like to thank you for the strength of your analysis. I can be quite mellow. I was surprised you were as forthright about some of the critical problems with the PURS program as you were in your report. It is hard for me to foresee on the basis of the strength of your critical analysis any government coming forward with a proposal to accept the PURS program.

Mr. Chairman: It is a memorable day when McClellan is mellow.

Mr. McClellan: Also very impressed. I have read all the criticisms of the PURS plan and I have never read such a strong, and I am not exaggerating or being rhetorical, and complete summary of the problems involved in PURS as I have in this particular document. Without being rhetorical, I tend to suspect that this represents the tombstone of the PURS program.

Mr. Riddell: Maybe it was not Mr. Stouffer's intention, though, to be so critical as to discourage the committee from adopting this program.

Mr. Chairman: It was an objective analysis, as I see it.

I wouldn't think, because most of the arguments are in favour of not adopting it, that tnat would mean a mandate for precisely the opposite decision.

Mr. McClellan: I would like to see the report that dealt with all the problems you people have outlined.

Mr. Stouffer: You should have a copy of this: Commentaries on the Haley Report on Pensions by Ascah, Baldwin and Pesando. It's an Ontario Economic Council publication.

Mr. Mackenzie: I'm inclined to agree with my colleague. I think the summary is one of the best I have seen. I also feel it states a case against PURS that is going to be difficult to overcome. But apart from that, it is one of the clearer outlines of its strengths and weaknesses I have seen put together.

Mr. Chairman: It certainly establishes some credibility on the part of the Treasurer, I guess, or the ministry.

Mr. Mackenzie: I figured that was his route anyhow, Mr. Chairman. The only thing I am suspicious about is why the kite was flown in the first place, how they allowed the royal commission to fly it.

Mr. Chairman: In fairness to the royal commission, they were a completely independent body with broad representation. With that independence of mind, I think honestly and with a great deal of thought, they came forward with the recommendations they did and that is why I do not think we should dismiss this recommendation along with any other, lightly.

Mr. McClellan: Perhaps Mr. Stouffer was bringing our attention to an OEC document that--

Mr. Chairman: That was distributed to every member of the Legislature, incidentally.

Mr. McClellan: I was hoping you would not say that.

Mr. Chairman: I surmise again that change really has to be more in the form of a package rather than dealing with, say, one plan or another plan. I think it is more of a package arrangement. Somebody can comment on what I have said but I would think that from both the individual's point of view as an employee, the employer's point of view and government's point of view that you cannot keep adjusting. You have to know just what the rules are and you nave to have sort of a dose in one shot rather than bits and pieces.

Mr. Stouffer: That certainly would be preferable I think to be able to put a package together. I think it is a little bit like a pill. You want to have the time for absorption. Certainly you can conceptualize the package. There are parts in the package that are separable. For example, the existing elderly problem is solvable only in a limited number of ways.

The need for reforms in the employment pension system can be

addressed really as a separate package but when you are looking at the provision of pension income, the totality of the picture must come in so I would say, yes, it would be desirable to have a package but, at the same time, recognize that package has to be swallowed.

A phasing in I think is most desirable in this case, a phasing in of changes in employment pension plans, perhaps a phasing in of the expanded CPP if it comes to that. That is needed. But I would agree with you, Mr. Chairman, that you would try and conceptualize the thing as a package.

Mr. Mackenzie: I do not think there is any doubt in anybody's mind that other than the need to deal quickly with that group of people--it does have welfare connotations, I guess--who are really up against it, that any major changes are going to be phased in. I think anybody else would accept that.

Mr. Chairman: I think that has been the thinking of the committee in terms of, for example, vesting provisions. Some of our recommendations--

Mr. Mackenzie: There we may have been a little short. We should have gone for earlier vesting than we did.

Mr. Chairman: I think the phasing in is important. I think it is also important though to distinguish purely pension problems from welfare problems.

Mr. Mackenzie: I am not sure you can in total the way our system is set up. I think, like it or lump it, you are dealing with somewhat of an income redistribution situation.

Mr. Chairman: Again, I do not want to be argumentive. Certainly, as the chairman, I refuse to be but pensions relate to people in the work force and I am ever mindful of that.

Mr. Mackenzie: OAS is part of those pensions.

Mr. McClellan: You are excluding old age security from your definition of pension, whereas I would include it within the pension system.

Mr. Chairman: The documentation I read talks about employees and persons in the work force and that kind of thing. I am not suggesting there should not be coverage for others or that others should not be included in the program. We have debated, for example, the housewife in the Canada pension plan. I am not excluding that.

What I am saying is that there is the distinction that we treat the subject. And you have to watch you do not confuse them for one purpose and not for another. Are there further questions of Mr. Stouffer? Well then, Mr. Stouffer, you have a document that you would like to introduce. Would you do that now?

Mr. Stouffer: Earlier this morning when we were talking with Mr. Riddell, we mentioned that we would provide you with a

copy of the standard letter which is in answer to the Globe and Mail articles. That is what exhibit number 141 is, a reprint of the--

Mr. Riddell: My only question there was, who would be responding to--have there been several letters come to the minister expressing the same concerns? Because it starts out, "I have received your letter," so I am just wondering if he received a good many letters and this is the standard answer. If that is the case then there are obviously more concerned about it than myself.

Mr. Stouffer: There is one other document I would like to bring in and again it is in response to Mr. Riddell, a summary of the current CPP financing or statistics on financing arrangements. So we have the list of what the cash flow is and a summary of the borrowings, the rates of interests in comparison with Ontario Hydro's borrowing rates.

Mr. Chairman: You will find that facinating, Mr. Riddell. Mr. Stouffer, thank you very much for your well-prepared and presented, in-depth review of the PURS program and related matters. We appreciate it very much. The committee stands adjourned until 10 o'clock Tuesday morning.

The committee adjourned at 3:27 p.m.

SELECT COMMITTEE ON PENSIONS

REVIEW

TUESDAY, JANUARY 12, 1982
Morning sitting

SELECT COMMITTEE ON PENSIONS

CHAIRMAN: Taylor, J. A. (Prince Edward-Lennox PC)
Brandt, A. S. (Sarnia PC)
Cousens, D. (York Centre PC)
Cureatz, S. L.; Deputy Speaker (Durham East PC)
Gillies, P. A. (Brantford PC)
Haggerty, R. (Erie L)
Jones, T. (Mississauga North PC)
Mackenzie, R. W. (Hamilton East NDP)
McClellan, R. A. (Bellwoods NDP)
Riddell, J. K. (Huron-Middlesex L)
Van Horne, R. G. (London North L)

Clerk: White, G.

Researcher: O'Mara, J., Legislative Research Service

Witnesses:
From the Federation of Women Teachers' Association of Ontario:
Byrne, J., Executive Assistant
Henderson, F., Executive Secretary
Thomson, A., President

From the Ontario Teachers' Retirement Village
(Kitchener) Corporation:
Scott, D., President

LEGISLATURE OF ONTARIO

SELECT COMMITTEE ON PENSIONS

Tuesday, January 12, 1982

The committee met at 10:11 a.m. in room No. 151.

REVIEW
(continued)

Mr. Chairman: This morning we have with us the Federation of Women Teachers' Associations of Ontario, with Miss Ann Thomson, president, Dr. Florence Henderson, executive secretary, and Ms. Joan Byrne, executive assistant. Would you care to come forward and then you will be wired in and we will not miss a word?

Gentlemen, the brief should be in your binders. It is exhibit 118 if I am not mistaken. You should have distributed to you a brief of the Ontario Secondary School Teachers' Federation, which is not the one we are considering at the moment.

Miss Thomson: Mr. Chairman, the Federation of Women Teachers' Associations of Ontario is one of five teacher federations which combined to form the Ontario Teachers' Federation. You have received the Ontario Teachers' Federation brief, its submission to the select commission on pensions. We concur with the benefits and concerns which were expressed in this brief. The OTF brief highlights adequacy, money purchase versus defined benefit plans, public sector, employment related pension plans, other employment related pension issues, potential relationship of mandatory plan with the teachers' superannuation fund and equality in the work place.

The Federation of Women Teachers' Associations of Ontario represents elementary women teachers and has done so for over 60 years. At present our membership is over 30,000 women who range in age from 20 years to 65 years. Not all of our members teach long enough to qualify for pensions. However, 7,010 of our former members are receiving pensions from the superannuated teachers fund.

We have a history of involvement with pensions and their effect on the quality of life for women. For example, in 1966, FWTAO distributed $100,000 to former members who were receiving low pensions from the teachers' superannuation fund. This came about because delegates at the annual meeting decided on this action to draw attention to the plight of former colleagues who were suffering the effects of low earnings during their careers, coupled with inflation when they retired.

The federation of women teachers is a unique organization in so far as we are concerned with education, but we are also concerned about women and we represent women in the work place. Our brief has been prepared to highlight many of the aspects of pensions which deal with women. Joan Byrne, one of our executive assistants, has the responsibility of dealing with pensions and she will present our brief to the committee.

Ms. Byrne: Mr. Chairman, we want to focus the attention of the committee on the situation facing most women as they grow older. Wherever you turn for data on the status of older women, you are faced with a really chilling, dreary picture of poverty. There is a great deal of evidence and it all indicates that, if we are ever to resolve the problems of adequate pension and retirement for society, one of the main problems we must resolve are the problems facing women.

They have a generally subordinate position in the labour force, their greater longevity and their actual and assumed position as nonworking dependents all have an effect on the special life patterns of women and what must be done in pension reform so that the present picture does not continue into the future.

There has been a remarkable increase in the rate of participation in the labour force by women, across Canada from 20 per cent in 1921 to 49 per cent in 1979. In Ontario alone in 1980 54.3 per cent of adult women were working. In fact, women were 41.6 per cent of the work force in Ontario in 1980. This is quite a dramatic change from the past when the assumption of women staying at home was in fact the reality of life.

However, women do tend to work in low-paying, low-status jobs with earnings that tend to be much lower than those of men. One in six women employed full time earned less than $6,000 in 1977. It is a rather upsetting future for them. But women, of course, make up 72 per cent of the part-time labour force in Canada and part-time work is generally excluded from pension coverage. Indeed, only 34 per cent of working women are covered by employer-sponsored plans and that figure drops to 22 per cent if public sector employees are excluded.

You have the picture; low pay when you are working naturally means low pensions in retirement if you have a pension at all. The fact that women are working does not preserve them from inadequate income when they retire when they reach old age. The average woman can expect to live 17.5 years after age 65 whereas the average man at age 65 can expect only 13.7 years. There may be some improvement for you gentlemen in the future but that is what the reality is at the present. Women are much more likely than men to find themselves old, alone and poor.

Among persons over 65, most men are married but almost half of the women are widowed; at least they are alone. At age 65, six of 10 women are alone. At age 75, eight of 10 women are alone. And two thirds of women over 75 live in truly desperate financial circumstances by anyone's measure.

There are some very serious problems facing women and it is aggravated by the fact that more than half of the participants in private pension plans are employees that do not provide survivor benefits so that barely one woman in four can expect a widow's pension. The assumption of women being looked after because they are the dependent spouse does not carry on into old age.

We have the very disturbing picture that neither their own efforts in the paid work force nor their contribution to society as

wives and mothers ensures them a decent income in retirement. The roles that they play in the home and in the work force lead inevitably to poverty in old age.

As has been pointed out by others, ageing is a women's issue. Three out of four women will be on their own financially at some point in their lives and if there is ever to be a resolution of the multitude of problems that beset older women, we must take action now to alter the chain of circumstances that lead to such a blight on what should be among the best years.

Turning to the recommendations, the items that we would particularly like to support, first and foremost we want to urge the government of Ontario to support the dropout provision that has been suggested, the child rearing dropout provision as now legislated for the Canada pension plan.

The Royal Commission on the Status of Pensions in Ontario, as I am sure you gentlemen are all aware, made no significant recommendations for change in the Canada pension plan with that one notable exception. They did feel that the dropout provision was worthy and that it should be enacted as soon as possible and we want to support that with--

Mr. Chairman: If we may interject here and say we have supported that.

Ms. Byrne: You have supported it? That certainly helps then. Then I do not know if we need to go through the other arguments that are here. You have obviously read the report.

Mr. McClellan: Mr. Chairman, I am sorry. My colleague and I of course support the provision but the committee put it over until this session.

Mr. Chairman: I guess I was maybe premature in determining a consensus. You carry on. I know there was support for that at the committee but if you would not mind carrying on.

Mr. Williams: Mr. Chairman, expressed but not formalized.

Ms. Byrne: That is very encouraging. I guess then in your reading of the royal commission report, they came to the conclusion that the value to society of child bearing and rearing overrides any alleged inequities to single persons or childless couples. They point out that the Canada pension plan is a social insurance scheme and that a subsidy or redistribution of income is perfectly appropriate in such a plan and that in fact a number of subsidies or redistributions already exist within the plan, notably the one to those who have retired and qualify for benefits since the plan first came into effect, and did not in fact contribute to anywhere near the value of the benefits they will receive.

There is of course the intergenerational subsidy which favours the baby boom cohorts who will pay for a smaller retired group and will not have paid for the benefits that they will receive in their lifetime and, of course, it is an inevitable

subsidy because Canada pension is earnings-related between the high earning and low earning.

It is an earnings-related plan and there will be an inevitable subsidy throughout its lifetime so that the argument that the dropout provision creates a subsidy cannot be used as an objection as such, that there is a subsidy feature in the drop-out provision but it is a perfectly defensible change in the makeup of the plan.

There is an opportunity cost to child rearing. You have loss of pay, job tenure, seniority and marketable skills. Do we really need to add the further penalty of loss of your CPP credits? Women are a vital part of the labour force and we have to recognize their career pattern. The value of child rearing to society must be accommodated in the Canada pension plan so that women do not endlessly suffer the financial penalties because they have withdrawn from the labour force to care for their children.

10:20 a.m.

I am sure this committee has reviewed the Canada pension plan in some detail but certainly there is no suggestion that the minimum qualifying period of 10 years will not remain; it does not cause a person to receive pension credits but protects against losing rights because of staying at home to care for children. Therefore, we feel that among the many changes crying out to be brought into effect, this particular one is overdue, and we are delighted to hear that the committee is sympathetic to that particular change.

Mr. Mackenzie: These things have to be dealt with anyway (inaudible) when we get to our final report.

Ms. Byrne: Right. It is my understanding that every submission to the royal commission supported the drop-out provision; I know we did, and the Ontario Teachers' Federation did.

Mr. Chairman: As I say, I may have to apologize to the committee for anticipating a consensus, but I want to encourage you in your view, that there is a good deal of support for your position and the royal commission's position on this. One of the major subjects for the committee's consideration is the Canada pension plan; it is a part of it, and I hope we will be making recommendations this winter.

Mr. Mackenzie: I am wondering, Mr. Chairman, before we continue, if I can just ask the witnesses about the comments they have made that in a social insurance scheme, such as the Canada pension plan, a subsidy or redistribution of income is entirely appropriate. The idea of the Canada pension plan being looked upon as a vehicle for income redistribution does not bother your organization in the least, I take it?

Ms. Byrne: Certainly not to the extent that the drop-out provision provides for redistribution; not at all. It is a social insurance plan, and does not have to adhere to insurance principles to be--

Mr. Mackenzie: It is one of the things that may be part of the discussions we have of a serious nature in this committee, and I am just trying to get the feeling of the various organizations.

Ms. Byrne: When the proposal was first brought forward in 1976, this organization supported it at that time, conveyed our support to the Ontario government and urged you at that time to bring in the dropout provision. We have not changed our minds. We feel it is long overdue.

Women as part-time workers: We would also like to urge support of the recommendation of the royal commission on part-time employees, that pension plans be required to include part-time employees where there is a durable employment relationship.

As I noted before, 72 per cent of the part-time labour force is composed of women, and that is one of a number of reasons that many women reach retirement age with very little, if any, pension entitlement; so often, almost universally, part-time work is excluded from coverage in an employer's pension plan.

It reflects social expectations about women's responsibilities to home and family that they work part-time far more than men. So many women are unable to commit themselves to full-time employment because of the demands of young children, parents, even a disabled spouse. If a home needs someone at home at least some of the time, more likely than not it is going to be the woman who will make the part-time commitment. We see no reason that will not continue in the future, but there is no justification for excluding such workers from the employment pension plan.

Mr. Chairman: Could you indicate what you mean by part-time?

Ms. Byrne: Anything less than full time.

Mr. Chairman: Two hours a week, or any time? You are thinking on a continuous basis. I guess it is a matter of the mechanism for including it.

Ms. Byrne: Perhaps we should look at the way it works in the Teachers' Superannuation Act; we have coverage for all part-time work, and the money earned as it relates to a full-time salary earns you a proportionate amount of service time. We do not see any reason why that could not be translated into the private sector as well. Certainly, teachers have part-time coverage and we see no reason why other women workers should not have the same. If a full-time week is 40 hours, then if a person works two hours a week, they have earned two fortieths of whatever you earn in a week for pension purposes.

Mr. Williams: So supply teachers in your federation are all covered under your pension plan?

Ms. Byrne: Yes. Every day of teaching, every half day or quarter day, whatever you contribute. If you earn salary, there is

a reconciliation of that salary to a full-time salary, and you receive that proportion of time as it relates to the money.

Mr. Williams: So it is prorated over a period of time?

Ms. Byrne: Yes.

Mr. Van Horne: Does the nature of the contract--that is, permanent versus temporary--have any bearing on that?

Ms. Byrne: None at all. As I say, every day of teaching under contract or not counts for the purposes of pension.

Mr. Williams: So arrangements for part-time workers in your profession are better than in the work place as a whole, as you see it.

Ms. Byrne: Yes. We do not consider them the ideal either. We have some ideas for improving them for teachers, but that is a particular subject of our own.

Mr. Williams: You are speaking to the general work place.

Ms. Byrne: Yes, to the general work place; we see no reason why the principle cannot be extended to all women workers.

Our next concern is the survivors', single persons' and the spouses' allowance. The royal commission has a number of recommendations related to survivors and pensions which are of interest to us as women. They suggest, following a good deal of examination, that an individual requires about 60 per cent of the income that a couple needs to maintain a comparable living standard. Throughout their report, whenever they are talking about survivors in the Canada pension plan or their proposed provincial universal retirement system or in privately funded pension plans, they follow through on that 60 per cent suggestion.

We certainly support that philosophy, and we would urge the Ontario government to implement the intent of the royal commission concerning a 60 per cent pension for a spouse in all pension plans. However, we hope the Ontario government will take particularly swift action on two recommendations that the royal commission had to make about level and standard of adequate income.

The royal commission suggested that, in setting a minimum level for adequate income, the principle should be endorsed and implemented that a single person aged 65 and over needs more than one half the amount needed by a married couple both 65. They suggest one sixth of half the amount required by a couple, which is not quite 60 per cent but it is pretty close; so approximately 60 per cent of the amount received by a couple.

They also recommended that a standard should be adopted by the Ontario government for determining the adequacy of the level of income of government programs and suggested 70 per cent of twice the minimum wage for a married couple and 60 per cent of the resulting amount for single persons.

We do not for one moment think that those suggestions will resolve all the problems of the current elderly. However, we do feel that it is a step that must be taken soon to establish some certain principles upon which you are going to base your government programs. That is, there are so many older, unattached women living only on those government programs; I know they get ad hoc adjustments and they are looked at from time to time, but there is no overriding system behind them.

10:30 a.m.

We do believe those two recommendations on level and standard would produce at least an adequate measure of income and that it does approximate a prevailing income standard in the labour force. We would like to see them implemented swiftly, because they apply to the current elderly. It is not a long-range solution but, of the many older people who need some kind of boost in income, those two particular recommendations would be of assistance.

Mr. Williams: There is one recommendation from our interim report. Have you read our interim report?

Ms. Byrne: No, I have only read newspaper coverage on it.

Mr. Williams: Perhaps we should provide a copy of that interim report to you for your benefit. There was one recommendation, 12, that I think touches on the subject you are talking about; it recommended that for employer-sponsored pension plans the normal form of benefit should be joint and last survivor, with a survivor level of 60 per cent or more. Other annuity forms can be taken when the spouse signs off. That touches on one aspect of that concern.

Ms. Byrne: Were there any questions about the two recommendations on level and standard?

As an organization, we do have some real concerns about another recommendation of the royal commission. It is the only one that we are taking some strong objections to, and that is the phasing out of the spouse's allowance under old age security which would require those who need the income assistance under age 65 to be cared for under what amounts to welfare programs, either provincial or federal.

The spouse's allowance is designed to assist low-income people. It is paid to a spouse between age 60 and 65 who has the residence requirements and whose spouse receives old age security. There is an income level, you must be below a certain income level to qualify, but there is some discrimination in that it is not paid to single or divorced persons or to a widow or widower whose spouse was not already an old age security recipient.

However, 91 per cent of the people who receive the spouse's allowance are women, and we feel very strongly that it would be extremely premature to phase out a program of aid to older dependent spouses until a much greater proportion of women achieve economic independence in their own right. It is not that in some

Utopian day in the future it might not be a perfectly responsible thing to do. At the present time we feel that it would be a very severe penalty to a group of people who are quite unable to do anything for themselves.

We would also like to support the suggestion of the royal commission that the Ontario government take steps to ensure that all annuities purchased for money-purchased pension plans and registered retirement savings plans are calculated without regard to the sex of the annuitant, on the basis of unisex mortality tables. We agree with that recommendation and request the Ontario government to take necessary action.

As we have already pointed out, women generally earn less than men; it is more difficult for them to save some money from current income for their own retirement, and there is less tax incentive for them to place money in registered retirement savings plans, because the most advantage is given to those in the higher tax brackets. All the way down the line there is not the incentive to save that there is for men. Then when you get to the end of the line you find that even if you have managed to set aside some money for retirement purposes, you are going to get a lesser annuity for the rest of your life, which may be longer, because the annuity rates are going to be set differently for males and females.

Insurance companies insist that there are these significant differences in life expectancy and, because on average women live longer, they receive a lesser annuity for the same accumulation of money. Of course, that effect prevails in all money-purchased pension plans.

However, there is evidence that 80 per cent in one study and 84 per cent in another study of men and women die at approximately the same age. The differences in the averages have to do with the fact that about 10 per cent of men die relatively young and about 10 per cent of women live to a relatively old age. So, as a group, women do not cost the insurance system more than men. They simply happen to be the same sex as the small proportion in the long-lived category.

There was an investigative article by a newspaper reporter that showed some insurance companies--and I would emphasize some--sell life insurance to women on the basis of the male mortality tables when it should be nine to 13 per cent lower. Not a single insurance company sells the annuity to females on the basis of the male tables. They are quite prepared to take the extra money during the working years for life insurance but they certainly make certain that they do not get an annuity at a preferred rate.

Women have tended to be weak as an economic and political group. This is changing and certainly unisex mortality tables would be one move that would be reflect our greater economic and political punch. We would like to request that the Ontario government consider a change to unisex annuity rates.

In conclusion, I would say again, as our president mentioned, that we do support the recommendations that are contained in the

Ontario Teachers' Federation brief to this committee, but we would like particularly to emphasize these items of concern to women and we hope that we will have some recommendations from this group.

Mr. Van Horne: I have a question on the last point made about women making less than men. That is not true in education, is it?

Ms. Byrne: No, it is not true in education.

Mr. Williams: I just have a few questions, some for clarification. Ms. Byrne, there are a couple of statistics you provided us at the beginning of your presentation. I just want to be clear on them. You mention that women make up, I think you said, 41.8 per cent of the labour force in Canada, is it, at this time?

Ms. Byrne: No, 41.6 per cent of the work force in Ontario in 1980. That is from the Ontario Advisory Council on the Status of Women.

Mr. Williams: You made reference to a mean average income figure of $6,000 in 1977. What does that relate to? I was not sure of the point you were making there because I could not relate it to a specific situation.

Ms. Byrne: One in six women employed full time earned less than $6,000 in 1977. Even though they are out in the work force, working full time, their income potential is so much lower than men.

Mr. Williams: One in six full-time women workers in 1977 was earning less than $6,000. Do you have any more current information than that?

Ms. Byrne: I am sorry I do not. That was the most recent figure I could locate.

Mr. Van Horne: Excuse me. That 41.6 per cent is inclusive of all part time too, or is that full time?

Mr. Williams: It is the total labour force, as I understood it, part and full time.

Ms. Byrne: The total labour force.

Mr. Williams: I realize and appreciate that your brief is directed to women in the work place as a whole, as you pointed out on several occasions. I think your paper is well presented to deal with the global issue.

Coming back to your specific situation and to the question that Mr. Van Horne put earlier, I guess your particular profession in somewhat unique in the sense that women perhaps are not treated as second-class workers, so to speak, in the sense that, as I understand it--and I would appreciate clarification--teachers receive equal pay for equal work in effect. Is that correct?

Ms. Byrne: Yes, our salaries--

Mr. Williams: Under your contract or your federation arrangements.

10:40 a.m.

Ms. Byrne: Actually, when you look at average salaries across the province for men and women teachers and then look at the kind of pensions that women teachers receive at the end of the line as opposed to men teachers, women certainly end up on the short end of the stick. That has to do with such things as career patterns, the withdrawal from work to raise children, the fact that some men seem to be able to reach positions of higher responsibility with a little more ease than women, but there is no built-in systemic discrimination against women on salary. The salary schedules are set up on the basis of years of experience and qualifications and they apply to men and women equally. Therefore, in theory a woman teacher is able to earn the same amount as a man.

Mr. Williams: Does that apply from the bottom range to the top range, from a principal right down to a starting teacher?

Ms. Byrne: Yes.

Mr. Williams: You say that applies in theory. You are suggesting it does not apply in practice.

Ms. Byrne: The reality is that women tend to be clustered in the classroom. More men are in positions of responsibility, such as principals. There is the qualifications factor. Many women take longer to achieve higher qualifications as a teacher so that over a career span their higher earnings do not come perhaps until very late in their career. The reality is that women teachers do tend to be behind men in career earnings, but it is not built in.

Mr. Van Horne: London, Ontario, is a forward-looking community. I represent London North. We have a lady director and a very capable lady in Dr. Madeline Hardy, but I believe she was the first female director of education appointed in Ontario. So you are catching up.

Interjections.

Ms. Byrne: Perhaps Dr. Henderson would like to comment on this aspect.

Dr. Henderson: I think you have certainly represented it quite adequately, except to underscore, without pushing too hard on it at this point, women in teaching or in education do retain a similar pattern to women in the main work force. The reason women are lowly paid in the work force is they don't occupy the same jobs as men in many instances. In some instances we recognize there is an inequality of pay for the same work probably and to that extent certainly education is ahead of the game, but I would emphasize the point that Joan Byrne made in stating that the proportion of women in the higher-echelon positions is very small. Of all the principals in the elementary schools, for instance, only something like 1.7 per cent of them are women.

Mr. Williams: That brings me to the next point I want to make. Certainly, as has been stated, you are ahead of the game, so to speak, in so far as equality exists amongst male and female teachers. You have confirmed that in theory there are certainly no barriers to women moving to the top. You indicate that 1.7 per cent are female principals, which, I gather, is the highest position you can move to.

Ms. Byrne: No, superintendent.

Mr. Williams: The unanswered question--and I don't know whether there is an answer to it--is how many female teachers, given the opportunity, by choice are not desirous for whatever personal reasons of moving into the higher-paid positions because of the added responsibility, the stress and tensions in the work place, because of the fact that they may not be totally career-minded in the sense that they have other responsibilities, such as family? Some, of course, are completely single and have no other interfering responsibilities, if I can use the term "interfering," such as children to look after and maintain a home.

I presume there is a certain percentage that voluntarily would not be looking for higher advancement beyond a certain point. They just feel enough is enough, this meets their needs and interests and they are prepared to give this much to the advancement of education and to the system and they want to balance their time more between that and these other commitments. I presume there must be perhaps some consideration there in directing our attention to the fact there is only 1.7 per cent. Would it be higher if that was not a factor? That is what I am really trying to elicit from you.

Dr. Henderson: I think we have some evidence of that actually, though I do not have figures at the moment for you. In recent years, one of the studies we have done indicated was that when women entered education they entered with a career in mind in the classroom. That was the stereotype, if you will. Women who went into education largely saw themselves as classroom teachers. Men who entered into education--and this was a study, not just an assumption--went into teaching as a means to an end to administration. That was the goal they had in mind. By and large, many of them followed that career.

As in many of the things we have been discussing, we are in a period of transition where those career goals are changing for women and women are now entering teaching with thoughts much more similar to the career patterns that men have in mind. In fact, with the kind of programs which our organization has launched in order to build in some of the confidence that has not been typical of women in the career world, now that the positions are opening, now that the whole picture of opening some of these higher positions for women is changing, as the member for London North (Mr. Van Horne) indicated, and becoming more of a fact of life, we have found--and I say this to the credit of the school boards involved--the number of women who are being promoted is growing tremendously, and we are very pleased to see that.

That does indicate to us that when the openings are there and

when some time has been provided to change focus for people who have stereotypically looked at a career in a certain way and when the training is provided for them to shift focus and to shift skills, then women are prepared to occupy those positions. We are pleased to see that is opening up in Ontario considerably.

Mr. Williams: Has your association in recent times had occasion to grieve, if I can use that term, on behalf of any of your members because you felt there was some form of discrimination against a female teacher applying for a particular senior position in any school or school system?

Dr. Henderson: Yes. Just last year we were involved in a rather major grievance with one of the school boards on the failure to appoint a qualified woman to a position.

Mr. Williams: Do you find this is now more the exception than the rule, or is it still commonplace within your profession that you feel you have to grieve?

Dr. Henderson: I would say the grievance route is not a major route that we are following. What we are following is a program of affirmative action, which is attempting to work with school boards in the kind of program I have been outlining in providing opportunities for women to move up the career ladder and in providing training for them in order to span that gap that has existed over the years. We are finding considerable co-operation on the part of the school boards.

10:50 a.m.

Mr. Williams: In this equality, in striving for senior positions that you say is applied in theory to date, you can see it as evolving in practice to your satisfaction, can you? Do you feel that it is moving forward?

Miss Thomson: I think it is moving very slowly. At present in Ontario, in the elementary system, one out of every four men is in a position of added responsibility, and it is one out of every 50 women. So if you take it in that proportion, we are pleased with the progress but there is a long way to go, because research indicates the ability of the women going into teaching initially is greater. I accept your comments earlier about why some of the women do not want those positions and are not interested, and cannot cope with those positions perhaps. But, on the other hand, there are a great number of women that could, and when you look at those facts, one out of four and one out of 50, it is disproportionate. Those are 1980 figures for the last school year.

Mr. Williams: Ms. Byrne, you mentioned earlier about the symbolic gesture that your association made in providing, I think you said $100,000 to retired teachers within your association. That situation, as far as what you felt to be substandard pensions to these retired teachers, I presume would apply equally to men teachers in that same age category, would it? And just what were the circumstances of that symbolic gesture? What were those retired teachers receiving on average by way of pensions that gave you cause to make this contribution?

Ms. Byrne: At that time we were trying to give them $1,000 and I believe the minimum pension at that time was $600 a year. We found quite a few--I am sorry I do not have all the figures just clear now--but it ran into hundreds, if not more than a 1,000 of our members who were receiving that $600 and we tried to give them all at least the $400 to bring them up to $1,000. There were any number of others who were somewhere between the $600 and a $1,000 and we brought them up to $1,000.

Mr. Williams: That would have applied to teachers who had retired in what year?

Ms. Byrne: Some of them might have retired two or three years prior to 1966. Some of them might have been in retirement 10 or 20 years.

Mr. Williams: Since 1966?

Ms. Byrne: Yes, that is when we distributed that money.

Mr. Williams: I see. So after 1966 the pension arrangements with the federation were improved markedly so that this type of substandard subsistence did not apply as far as--

Ms. Byrne: No, there is still a minimum pension of $2,400 from the teachers' superannuation fund and there are still people receiving that minimum.

Mr. Williams: That is the minimum pension payable yearly to women who had retired after 1966, is that correct?

Ms. Byrne: Not all women. After age--

Dr. Henderson: A new minimum was established following that action on the part of our--

Mr. Williams: What is your minimum today under your contract arrangements?

Ms. Byrne: Twenty-four hundred dollars.

Mr. Mackenzie: I was curious as to the numbers or percentages of women teachers as against male teachers in the system. Do you have that information by any chance?

Miss Thomson: You mean the one out of four and one out of 50?

Mr. Mackenzie: Yes.

Miss Thomson: I could get that for you. It is in the Ministry of Education's statistics that came out last year.

Mr. Mackenzie: Do you have any idea of ball-park figures? I think the one out of four in responsible positions as against the one out of 50 of men tells the same story. I was really wondering how many were we dealing with in total numbers.

Dr. Henderson: Two to one, about 30,000 women, 15,000 men in the elementary public schools.

Mr. Mackenzie: So in effect there are twice as many women teachers as there are men.

Miss Thomson: Oh yes.

Mr. Mackenzie: Yet you are in a position where there is one out of four of the men in additional responsibilities and one out of 50 of the women, which would make that figure, if you looked at it that way, even more regressive.

Miss Thomson: Yes, it does.

Mr. Mackenzie: It makes me really wonder how valid the argument is and how many women teachers you could really say aren't interested in holding additional responsibility. I have heard that argument many times and I have never been able to accept it as a serious argument. Do you see it as a small number or a large number that are in that category?

Dr. Henderson: I think it is difficult to say, partly because, as I mentioned earlier, the stereotype of teaching has been that women have been the teachers and the men have been the administrators. That is changing and certainly among many of the young people coming into teaching or coming into education now, the women have indicated a strong interest in administration. Although I think there is a factor there and indeed we, as an organization, are not pressing that all women should become administrators--far from it--we feel that the women who are interested in the teaching function should have every opportunity to pursue that portion of the career.

What we are working strenuously to avoid is that they should be eliminated from the possibility of the other, and we can't believe that with the calibre of women who go into teaching, and this was indicated by the Atkinson study, which was a longitudinal study over 20-some years, they were either not capable of the job or could not have been interested in the job. That is why we are hoping to open up the opportunities.

Mr. Mackenzie: You gave us the figure of 1.7 per cent?

Dr. Henderson: Yes, may I correct that please? Really 1.7 per cent of our members are principals. I should have said that. It is closer to about seven per cent of the principals. We have a little under 3,000 principals in the elementary public schools and we have something in the neighbourhood of 200 to 250 women in those positions. We are looking really more at about a seven per cent figure of principals, which lines in with the one in four men and the two per cent makes the one in 50.

Mr. Mackenzie: The 1.7 per cent then is an inaccurate figure.

Dr. Henderson: The 1.7 is the percentage of our

membership. Whereas the men have the 25 per cent number, we have 1.7 per cent of our membership.

Mr. Mackenzie: It would seem to me that your case is pretty solid on that particular point. I notice your brief, as others have commented, deals with the position of women in the work force generally. Is that a commitment of your organization based on just the rather horrible situation we have or is it also, if you like, a self defence position in that if we can't improve the general standards you may be at risk yourself in the future?

Dr. Henderson: I think it is rather the former. I think we feel that as women in the work force, in spite of the points we have just made, we are in a relatively good position, looking at the position that Ms. Byrne drew of women generally in the work force. We are an organization that has a strong organizational function. We have existed for over 60 years. We are not poverty stricken and we feel that we have a social responsibility to look after not only ourselves and our own interests but the interests of women, most of whom do not have an organization like ours to represent them. That is why we feel a strong social responsibility to make a thrust such as this at this time.

11 a.m.

Mr. Williams: May I ask a supplementary? Could you clarify the point--1.7 per cent of members of your association are principals whereas there are about seven per cent on the whole. I presume that your association represents about 30,000 women elementary public school teachers. Does that represent all of the women teachers in the public schools, elementary and the others?

Miss Thomson: All of them.

Mr. Williams: All of them without exception. What you are not including are the separate school teachers.

Dr. Henderson: And the secondary schools.

Mr. Williams: I see. You are allowing the principals in the secondary schools as well.

Miss Thomson: Their percentages are worse.

Mr. Mackenzie: Their percentages are worse?

Miss Thomson: They have fewer women principals in the secondary schools.

Mr. Mackenzie: I notice you stress that part of your approach is affirmative action in bettering the situation. I recall during the Ministry of Labour estimates that we finished a few months ago, one of the previous directors of the women's bureau in the ministry made the point that contract compliance and equal pay were equally vital elements of any fight to improve the position of women in the work force, and she had some reservations about affirmative action programs in as much as while the "good guys" were usually willing to listen to you on an affirmative action

program there wasn't a lot of evidence in many occupations that it was working that effectively otherwise.

Dr. Henderson: I think that is true. However, as I said earlier, we do recognize society is in a period of transition. We don't expect to build Rome in a day and we don't expect the social trends to change immediately. But we do expect, with the input of the kind of pressures we hope to exert and which the status of women council in Ontario puts and so on, that many of the things that had been regarded as acceptable will be seen as being totally unfair and inequitable. And through our affirmative action programs, we recognize that ultimately legislation sometimes has to be enacted in order to get the kind of compliance you are referring to. In the meantime, we are working on the other and hoping that it will have the desired effect.

Mr. Mackenzie: In dealing with the rather poor position that a number of older women find themselves in currently, we had a second recommendation that wasn't referred to by my colleague in the interim report of this particular committee. That was known as recommendation number two. It said, "Until changes can be made to increase the GIS, it is recommended the government of Ontario should increase without delay the payment of guaranteed annual income system to bring single persons up to the adequacy level of available income recommended for the year in which the increase is made."

In other words, it was a recommendation, carried by the committee majority fortunately, although there were some dissents, that simply said there needs to be immediate action to increase the Gains payment for people who are in a rather desperate category, which some of us see evidence of in our constitutency offices.

The problem with that is that if there wasn't agreement immediately with the federal government, it would be an additional burden on the Treasury of Ontario. But it certainly was a position a majority of the committee did take. What would your committee's reaction be to that, until such time as we can get the mechanisms into place to more adequately compensate people?

Ms. Byrne: I am sure we would be glad of any improvement. Even though it doesn't answer the problems over the long haul, anything like that is at least a step in the right direction. But we would like to see the adoption of some principles behind how you will set these Gains amounts, as we suggest in our brief, rather than constantly doing it on an ad hoc basis.

Mr. Mackenzie: I don't think there is any question that is hopefully the purpose--with as much influence as we have--of this committee, to look at the long haul and the total question of adequacy. What we were faced with was an immediate position, and I readily admit it is sort of a Band-Aid measure once again, but one that obviously created some controversy in the committee.

Dr. Henderson: A phrase was used earlier that I think focuses or pinpoints all we have been talking about; that is that women are much more likely to find themselves old, alone and poor. In view of what we think of as the trends or the demographic

curves, we know we have a large ageing population, and will have for a number of years to come. It is our concern that, unless planning is done at this stage, not only for the people who are experiencing this now, it is going to to be a growing problem unless some kind of actions such as those that have been proposed are effected.

Mr. Mackenzie: I suggest that the very demographics you are referring to would put most legislators in the position where they could not do anything but act on them if you keep up your activities and get a hell of a lot more involved than you are.

Mr. Chairman: Any further questions? I wonder if I could ask one question before you leave, and that is, would you comment on the investment policy of the teachers' superannuation fund? I do not know whether you have given any consideration to this or not, but maybe I could preface that question with a quotation from our interim report, just to put the matter in perspective.

I am reading now from page 18 of our report: "Concern has been expressed that the public service superannuation fund and the teachers' superannuation fund are restricted in their investments to long-term, nonmarketable provincial debt. It has been stated that because of this the imputed interest rate is lower than for other funds and therefore employer contributions appear to be larger than for other plans. The Ontario municipal employment retirement system (OMERS) formerly invested in the same way. However, in recent years it has begun to invest in marketable securities subject only to the restrictions of private sector plans. The result has been a higher return on the fund in most years. Critics have suggested that consideration should be given to changing the investment policy of the PSSF and the TSF to that of OMERS."

The committee reserved any recommendations in regard to that, and I am wondering if you have given consideration to that subject of investment policy, and if you have, if you could help us at this time.

Dr. Henderson: Yes, we have. Our organization has, as has the Ontario Teachers' Federation, which is, at the present time, in discussions with the ministry on this very matter. I may say that, at this point, the matter is undecided on both sides. What they are doing is investigating the pros and cons, both from the government side and from the teachers' side. Our organization itself feels it prefers the present situation to the diversification of funds similar to that instituted in OMERS. There are a number of ways in which the teachers' superannuation fund differs from OMERS, and, therefore, looking at financial diversification and so on is quite a different matter.

However, as I say, at this point the matter is still under discussion and I expect that the Ontario Teachers' Federation and the government are trying to look at the advantages to both at this time, because I think there are advantages to both. One of the government advantages I see is that having those superannuation funds at their disposal probably provides an opportunity for a better credit rating on the market than if those funds were

withdrawn. On the other side, I think the teachers obtain an advantage from the sponsorship of the plan by the government. So I think both have gained from the present situation, and what they are looking at is to see whether there are gains on both sides for the other.

11:10 a.m.

Mr. Chairman: If I read you correctly, what you are saying is that there are exploratory talks going on at the moment, but you are not in a position to make any definitive statement. Am I correct?

Dr. Henderson: Yes, as it pertains to all the teachers in Ontario.

Mr. Chairman: Any further questions? If not, then thank you very much, ladies. You have been most helpful to the committee.

Dr. Henderson: Thank you for listening to us.

Mr. Chairman: The next person appearing is Mr. Don Scott, president of the Ontario Teachers' Retirement Village. I gather, Mr. Scott, you have come in from Chelmsford, have you?

Mr. Scott: Yes, I have, Mr. Chairman.

Mr. Chairman: How has your weather been?

Mr. Scott: Poor, very cold, and for a while I did not think I would make it. But I am happy I did make it and I hope I can share a few things with you and your committee. I am pleased to have this opportunity to be here with you this morning.

Mr. Chairman: We are delighted you are here, and if you would care to sit down, we are in your hands.

Mr. Scott: Thank you very much.

Mr. Williams: Mr. Scott, do you have any supporting paper that we could have available to us?

Mr. Scott: Yes. Your secretary asked me to provide 30 copies and I have them here. If you want to get them now, I could give them out, or I could make my presentation, which is a brief.

Mr. Williams: It would be helpful if we did have them while you were going through, so we can make notations on any point we might want to ask you.

Mr. Scott: All right. There are three pages. I apologize for a couple of typing errors. I did not get to proofread it until this morning. There are a couple of spelling errors which, if I were marking it, would, of course, be penalized.

Mr. Chairman: I don't think the committee is going to be overly critical, because I doubt whether we are in a position to be so. We may not even recognize the spelling errors.

Mr. Scott: I am sure you will when you see them. They jump right out at you. Should I just proceed or would you like to wait until you get copies of the statement?

Mr. Chairman: Yes, please.

Mr. Scott: My hope is that after a brief statement of the general presentation, the committee will respond with questions they feel are pertinent to the presentation. I do not want to try to anticipate your interest or concerns by answering all the questions I might anticipate. I want to make it as brief as possible and then entertain your questions.

First of all, Mr. Chairman and members of the select committee, I represent the Ontario Teachers' Retirement Village (Kitchener) Corporation. This is a nonprofit corporation, incorporated under the laws of Ontario in 1978. It consists of 600 teachers throughout the province, who teach everything from kindergarten right through to graduate schools in universities. About 50 per cent of our members are superannuated teachers. So it represents a very good cross-section, in every respect, of the teachers of Ontario.

As an enterprise, our concept has been endorsed by the Ontario Teachers' Federation board of governors, by the Ontario Secondary School Teachers' Federation provincial council, by the Ontario Public School Men Teachers' Federation, by the Ontario English Catholic Teachers' Association and by the L'Association des enseignants franco-ontariens.

My presentation, which I will read to you if you do not mind, is as follows. I speak to you as the president of the Ontario Teachers Retirement Village (Kitchener) Corporation, and as a teacher with a special interest in pensions. I was a commissioner on the Ontario Teachers' Superannuation Commission for five years from 1971 to 1976 and so have some practical experience to draw upon.

First, I want to emphasize that my concern with pensions is based upon my concern with retired people. I am sure, as members of the Legislature, that is your concern too. I only make that point because there are, of course, actuarial considerations in pensions, psychological considerations in pensions and social considerations in pensions, but my consideration is the person who gets the pension. I feel that one's retirement years, and I am sure I share this with you, should be a time of fulfilment. They should be years of independence, activity and security, not years of dependency, or a sense of being dependent, nor of idleness, nor of worry.

My interest in and concern for people has led me to conclude that to too great a degree, our society has thought in terms of money pension to retirees to the neglect of other approaches which, I submit, can be more dependable, more involving, more liberating and more fulfilling. Money-based pensions that attempt by one device or another to chase inflation only contribute to inflation and leave the pensioner always one step behind security and sufficiency.

I have an alternative suggestion, but first I would like to place my suggestion in an historical perspective. As a commissioner on the Ontario Teachers' Superannuation Commission, I travelled thousands of miles and met hundreds of retired teachers. In this process a composite picture emerged to me of the superannuated teacher of Ontario. I think it can be substantiated from the statistics, as I have done from time to time.

He retired at age 63 with up to 40 years' experience. At 63 he was active, socially involved, reasonably secure economically and married. Upon retirement he stayed in his own home for 12 to 15 years. At age 78 he and his wife decided to take an apartment. It was on the tenth floor of a glass and terrazzo building on the suburban periphery. Neighbours were hard to get to know and his old friends and places of recreation were several miles away. He drove very little.

When he was 82 his spouse died and he moved to a retirement lodge, variously called Silver Threads, the Golden Plough, Pioneer Manor or whatever. It was another five miles from his old haunts. He signed over his pension cheques and old age security cheques and received an allowance for personal spending. In his three years there, he never got around to visit, nor was he visited by, any of his surviving colleagues. They became rather hazy memories only. At 87, he fell and broke his hip. Although he had become used to his room in the retirement lodge, and that is the next best thing to liking it, he was taken from the hospital to a nursing home. There he lay in bed a lot and was dead one morning when the nurse came to call him.

Like the tragic hero of classic literature, and I have seen this happen with superannuated teachers, he had undergone a gradual process of isolation based upon health, based upon finances, based upon isolation geographically. When he made his series of moves from home to apartment to lodge to nursing home, he lost his links with his past. His pension money increased, that is true, but so did the money costs of shelter. With each move came new limits to life and more and more severe trauma. This picture may seem bleak and I do not want to emphasize the tragedy, but I do want to emphasize the truth of the picture as it became evident to me.

As I travelled and met the people whose composite picture emerged above, I searched my mind for alternatives. An important alternative came one Saturday in a little village south of Owen Sound. That morning I had participated in a teachers' retirement workshop near Chatham. I left at noon hour to drive to Tobermory to catch the Chi-Chi-Maun north. On the way I intended to visit a 79-year-old superannuated teacher whose name and address I had from our superannuation files.

When I arrived, I was saddened to see she was having an auction sale. I introduced myself to her and she was delighted with my visit. I asked her what she was planning to do. This is what she was planning to do, shocking as it may seem. She said she was moving to Detroit. I said, "My God, why would anyone in perfect health and in the blossom of youth, let alone a 79-year-old pensioner, want to move to Detroit?"

11:20 a.m.

Mr. Williams: You had better not let the Detroit chamber of commerce get this brief.

Mr. Scott: I will be on their hit list.

She told me that when she retired 15 years before, two of her girl-friends who had gone to teachers' college with her--it is a characteristic I have seen and I am moved by it that they always remain girls, even to 79-year old superannuated teachers--had moved to Detroit because the rents were cheaper there. "They have been after me to join them, and I have decided to go. When I first retired, everyone in the village knew me and now no one knows who I am." These were her words to me.

As I motored away, I thought of the sadness of the situation, and slowly a plan began to form, based upon a number of other elements of input--a village where someone would always know "who I am," a cluster of homes with a heart in the core of an alive and vibrant community; bungalows, townhouses, apartments, a lodge and a nursing home; shopping, church, medical, recreational and social facilities all a short garden path walk away.

The early retiree moves to the townhouse. It has three bedrooms. It has a car park. It has a private garden at the back. He bowls. He swims. He putters in his garden. When he decides to give up the townhouse, he moves across the street to the apartment building and all his recreational pursuits are not only at hand, they are even closer. When his wife dies, he takes his meals in the dining room and, when he needs nursing care, he just moves down the elevator and along the hall.

On that point, I would like to make reference to a retirement lodge in the Kitchener area which had eight guests who needed nursing home care and the lodge was not set up to provide this care. They did not like to ship them out to get the care because, under the provisions of that lodge built with Canada Mortgage and Housing Corporation financing, if they were out of their accommodation for 30 days, they lost their right to accommodation, and the people knew that.

They did not want to go. But these eight people, one Saturday morning, ambulances arrived; they were loaded in ambulances and they were carted off to a variety of nursing homes in the area. That was on a Saturday afternoon and this is a fact. On Monday, four of those eight people were dead and a contributing factor had to be the trauma of the move at their advanced age and in their condition of health.

To the extent he wants to, he involves himself in the community at large, but when he chooses, he is back in his village with his buddies and his activities, with familiar faces and shared memories and a sense of belonging.

For nearly four years now, I and several fellow teachers have struggled to create our village in Kitchener. We have encountered great problems, based principally upon lack of money. However, we

are making great progress based upon people like Dr. and Mrs. Gerald Cosgrave, Henry Gossen, Margaret Davey, Anna Miller, Ken Parsons, Finlay MacDonald and many more, most of whom are superannuated teachers, except for Mr. Gossen.

However, progress would be better if the retirement savings of working people could be converted into brick and mortar accommodation that would lead to fulfilment in retirement, not to isolation. This is where I look at the teachers' superannuation fund in terms of being a source of money to finance accommodation which would pay interest on the borrowings in excess of the interest currently received, but would be less than the interest in the marketplace.

Such accommodation would not only yield a fair return on investment, better even than the return currently received, but it would, when fully paid, reduce the need for money pension increases which are only slurped up by money inflation processes, because once the village is totally owned by a nonprofit corporation, then the question of how much rent the person could pay would be elementary, would be nonexistent as far as I am concerned. There would be some, of course, always able to pay and others less able to pay, but provision could be made for the person whose income, in terms of money, deteriorates, but whose need for social, recreational and other reinforcement continues to exist.

Robert Frost wrote that, "Home is the place where, when you go there, they have to take you in." Such villages would be that home, no matter whether they had to move across the street or down the hall. It is still the home. But, as another character in the same poem said, "I should have thought it was something you somehow hadn't to deserve."

That is to say, when a hired man comes home to die, it should indeed be to his home and he should indeed not have to justify his expectation of being received there with love, rather than being received by the superintendent who tells them that the rents will be due on the fifteenth and there will be annual increases, et cetera.

That is the background to my interest in pensions and I would certainly like to respond to any questions you may have about the concept and the ideas.

Mr. Williams: Mr. Scott, your concept in your proposal is an interesting one. It is not a new one, but it is new in the sense that not too many people have had the initiative you have had to implement the concept and make it a living reality. I was wondering whether you have ever visited the--I believe it is Leisure Village--south of Los Angeles which is a huge residential complex that has been developed solely for retired people. Have you had an opportunity--

Mr. Scott: No, I have visited about 15 to 20 retirement facilities in the province in various places. Some have one element of the village, some have another, but never any place outside of Ontario.

Mr. Williams: Let me just tell you a little bit about this and one of the surprises I got from visiting it. This was a few years ago and I guess it was in phase three or four at that time, it is such an immense project. As I say, it was a totally planned residential community of single-family homes, townhouses and exclusively for people of age, I believe, over 60. They had a central shopping area, they had workshops, they had recreational facilities, everything you want. Nothing was lacking. It seemed like Shangri-La, really, when you went in there.

I must say I did not get the total financial cost of acquiring accommodation there. I presume it was comparable to what was on the market anywhere in that area at that time. We talked to a lot of the people there and I think, by and large, it certainly is a huge step forward in this social concern that you express as to better utilize one's retired years in a positive, constructive and busy fashion to avoid this whole problem of isolation. There is no question about it.

The surprise we got was that there was not total acceptance of the situation from some of the people who were there. What we found was that in talking to some of the people, that some were in the process of moving away. It was on the basis that they did feel isolated, that it was sort of a social ghetto, if you can believe it, in the sense that they were all, as one person put it to us, old people looking at old people growing old.

There was no presence of younger people, of children or whatever, and they felt a real sense of aging simply because they were in this clinical environment, if I can use that term, only because there was just that one sector of society living there exclusively. That was the ghettoization that they were talking about. We were quite surprised to find some people actually felt unhappy living in what was otherwise a very idealistic social setting.

11:30 a.m.

Mr. Scott: We have not visited such places but, certainly in terms of the literature we have read, and we have had access to a great amount of literature, it became important in our planning to make sure that this was not a ghetto. In other words, architecturally the village had to have an element of distinction so that a member would always feel when he got there that he was home. But it could not be sufficiently in contrast to the rest of the environment, the community around him that it was marked off in any psychological sense.

The other point was that we approached the Kitchener library board and they agreed they would be very interested in locating a branch library in the building which would be open to the whole community. If you were living in the Belmont Avenue area of Kitchener and you belonged to the Kitchener Public Library you would go to and from that library to get your books.

We also have a health, social and recreational chairman who has been talking with the people in the city about a child-care

centre, a child-care centre staffed by professional people, of course, and qualifying under all the day nursery acts and so on that exist but with volunteers from the retired community to receive and more or less host the children of the working parents, who at seven or eight o'clock bundle them up and drop them off.

To have a volunteer greeting such a child does something for the child. Actually, so many children grow up without ever seeing grey hair because grandpa and grandma now no longer live in the house. They live somewhere else, often a long way away.

Also, in the commercial area, we have investigated and encouraged participation of a fast foods outlet, such as McDonald's. A lot of people in the nutrition area will immediately get all excited about this. We discovered that a great number of retired people go to McDonald's, partly because the coffee is free and partly because they get 10 per cent off on hamburgers, the Big Macs. Also, it is because older people are people watchers and they do enjoy seeing the harried mother and father coming in with the three kids on a Saturday morning to get them an Egg McMuffin.

We want such a fast food outlet, not just for the convenience of the guests but to involve the community as well. There is a village in the east end of Toronto that has a recreation area facing the street and young people in the area are encouraged to walk in off the street and play pool against the residents of the village.

The day I was there, a couple of old-timers had been taken to the cleaners by a couple of young sharpies from grade 10. I guess they should have been in school, but it was an involving dynamic.

I do not know the size of the complex you visited. Our site is seven acres. There are 54 townhouses and there are 228 apartments envisaged.

Mr. Williams: I think this was 300 or 400 acres, or 700.

Mr. Scott: From our research, this kind of thing would not be looked upon with favour at all. Also, we want to be in the core of the city and Belmont Avenue, where we have our site in Kitchener, is--you can just stand in the front and see the core of the city, the Canada Trust tower and so on just a mile away. The ability of the individual to feel he is continuing to mingle with society is there. Also, there is the very important quality he must possess, which is the feeling that when he wants to move himself out of this hurly-burly, he can do it easily.

Mr. Williams: I think in that situation, it was too controlled. That is what I am trying to say. At least, that is the feeling that came out. For instance, the people who lived there could only invite their children to come to stay there for a maximum period of time, and bring their children. They could come for maybe a two-week period maximum. They would not be allowed to remain longer than that. In a sense, they were isolating themselves from the total community.

I think what you are commenting on is a much better situation where they are more open to the community as a whole, such as having the library and things of that nature.

Coming back to the pension aspect of this social problem--sorry, I interrupted you; you were about to--

Mr. Scott: I was just going to say that our townhouses have three bedrooms with the obvious thing in mind that families are entitled to visit parents when they are retired and do so as conveniently and comfortably as possible. There are two-bedroom apartments. Then, for people who may be in the lodge, we have in our commercial site plan a provision for a motel which would be linked to the complex, a McDonald's fast-food outlet and so on. It would be architecturally part and parcel of the village. So in a sense when a person was in the lodge and could not put his son and daughter-in-law up in his room, they would just be across the causeway and in the motel unit as if they had never left the village. So that opportunity for visiting would continue.

Also, of course, there would be no element of regulation in terms of who may visit whom for how long. Each apartment is an apartment, period. Each townhouse is a townhouse, period. You move in there and that is your townhouse. If you want to bring your family in there for the whole year, that is your business.

Mr. Williams: That is more flexible and it would be more desirable socially.

There is one last question. I guess it really comes to the heart of your proposal, which is, as I say, an interesting one and a positive one. But the concept and the implementation of it are two different things as far as utilizing retirement savings.

In looking at that second paragraph on your last page, what are the mechanics you see being put into place to implement that concept of retirement savings? Would it be up to the individuals to come together, such as your people have, to direct a percentage of their retirement savings towards this type of project? Surely you are not suggesting that it would be an optional thing, that someone who is in a pension program prior to retirement could redirect their funds? Or are you suggesting that?

Mr. Scott: No. What I am tooking is the teachers' superannuation fund at the present moment, relating to the presentation made by the women public school teachers here this morning and the discussion with the chairman about other investment, under improved investments, of course, is provision for a percentage to go to mortgages. I could see a mortgage bond being issued by, say, Montreal Trust, to the teachers' superannuation fund for, say, Sl million at 16 per cent or 15 per cent or whatever was the competitive rate according to the marketplace, but certainly as good as or better than the return that we presently enjoy on our investments. This mortgage money would be loaned in the marketplace with a social encouragement element to it.

Just how that social encouragement would take place would have to be worked out, but I could see Montreal Trust being given

the option to issue such a mortgage bond and acquire $15 million and then loan $10 million of it to an organization such as the Ontario Teachers' Retirement Village to build a complex, say, in Peterborough at whatever the percentage was. They would not have access to that money if they were not prepared to see that it was social housing.

I know most insurance companies now have a social housing aspect to their investment portfolio where they do build housing, especially in the United States where they will put a certain amount of life insurance money aside to build social housing. The housing need is met and the costs are kept reasonably under control. The security is pretty well there for the money and the return to the fund is also there.

What the mechanics would be would have to be worked out with the Ontario Teachers' Federation in co-operation with the superannuation commission. Of course, it would require amending the legislation to permit moneys being diverted from government securities to other investments in keeping with the guidelines established for such investment.

Mr. Cureatz: This hits on one of my main questions, so following along that, have you approached them on a practical basis on how that could be worked out?

Mr. Scott: Have I approached the superannuation commission?

Mr. Cureatz: Yes.

11:40 a.m.

Mr. Scott: No, because we have not got far enough along to other than just chat with the present commissioners. I shared the idea, in fact I had the opportunity last August to go back to the commission and present a report on our progress. They were very interested and of course they shared sympathetically with my view that if money were a little bit easier our challenges would be a little less great. But nothing formal, because it only has to be kind of an exchange of viewpoints until there is a consensus on the side of the teachers--you heard of the dichotomy of views this morning--and consensus in terms of the provincial government and their attitudes towards the fund. Once that is done then we would have more specific talks.

Mr. Cureatz: Might I say, I enjoyed your presentation very much and as members of the committee from time to time we have long dissertations. We enjoyed the little story because it brings to all of us I think the practical nature of what the pensioners are up against from time to time. I think it is worthwhile to keep that kind of brief in mind if you are ever presenting it again, because it is very down to earth.

You mentioned there are townhomes and apartments. Are they actually purchased by the pensioners?

Mr. Scott: No they are rented. All the facilities would be rented.

Mr. Cureatz: So they are all owned by the nonprofit corporation.

Mr. Scott: They are all owned by the nonprofit corporation and would all be rented. We have provision being made in our cash flow proposals. We are in discussion with OSC and others--this is a very complex thing, we find out--to have a small percentage of rental cash flow put into a fund which could be used from time to time by the nonprofit corporation to buy the MURB units that the teachers are being invited to participate in. So over a period of 50 years, the Ontario Teachers' Retirement Village Corporation would own the village outright. It is at that point I suggest we could be much more social in our rental policies. Right now we are prepared to rent to anybody who has honest rental dollars to pay because we do have to meet the challenge of money borrowed in the marketplace.

Mr. Cureatz: So you are not restricting those you are renting to. It is not just teachers.

Mr. Scott: No, right now the townhouses are built and are rented to the community at large. The apartment building the foundation is in--we had to meet Mr. MacEachen's deadline of December 31 and it kind of threw us into a flap in the middle of November--we would probably designate say the second floor of the apartment towers for superannuated teachers and the rest to the community at large as rental accommodation.

As the number of teachers interested and willing to participate make application for an apartment, fine, we move to the second floor and the third floor, one by one. As town houses become vacant, if there is a retired teacher applicant or there is a teacher say within three years of retirement in the Kitchener area and he wants to sell his house and move into a townhouse, he would have a priority on the rental. But he would pay the same rent because of our cash flow requirements.

Mr. Cureatz: How many townhouse units are there?

Mr. Scott: There are 54.

Mr. Cureatz: And the proposed apartments?

Mr. Scott: There will be 228 apartments.

Mr. Brandt: Mr. Chairman, I find Mr. Scott's comments very interesting, because a few years ago when I served as mayor of Sarnia, that great community to the west of us, we were planning on a senior citizens' apartment building of about 100 units. I can recall the conventional thinking of the planners at that particular time was to isolate these kinds of buildings way out in the pasture land some far distance removed from the core of the area where the activities were.

Frankly, we went against the recommendations of the planners

at that particular time and we constructed the building virtually in the heart of the core area, the centre part of the city, in an area that was relatively noisy, close to a highway, close to a shopping centre, close to a fast-food restaurant, which you mentioned in your brief. It became the most popular building of all the buildings we had that served the seniors' community.

I think there is a great deal to be said for keeping senior people or retirees involved in the community in a real sense and not isolating them or moving them out. This is just an observation I wanted to make.

I had a few questions in connection with the type of development that you are proposing and the kind of thing that you are obviously in support of. I wondered if at this particular time your development is self-sufficient. Are you able to balance the books at the end of a given year with what you have in Kitchener?

Mr. Scott: Yes. We embarked upon the project with, as I say, between 500 and 600 participating teachers buying a $5 share in a nonprofit corporation. The development so far, the 54 townhouses, has been built and is being operated by the developer, Harold Freure. We have not been able to arrange the financing to take this over in terms of us having title to it. But under the MURB program, we have been negotiating with OSC to have an offering to teachers which will acquire for us the existing 54 units for $1.8 million and the new apartment complex which the foundation is in, for $9 million, and land and so on; all this coming to $13.38 million.

Mr. Freure has been most supportive because he recognizes that as a real estate development all by itself in the location it is in--one mile from the core of Kitchener, surrounded by a nice residential area--it is economic good sense. He has been working with us to help us acquire title to it as we get our financing. Our financing will be through a MURB offering to teachers. It will be limited to teachers, because if we made it a public offering we would have certain obligations in terms of marketing only through brokers. That would cost us $600,000 in fees.

We are offering a private offering to teachers only because, first, we want psychologically the teachers of Ontario, every time they go near the village, to say, "Hey, that belongs to me," and, second, to make the residents of the village feel that for a landlord they have several thousand socially conscious teachers, rather than some company whose very nature is to make money and to respond to the pressures of the marketplace when they can by raising rents.

The townhouses are built and rented. We are all set, if our MURB offering is successful--and it is in the mill now--as soon as we acquire the necessary response to that, we pay over from that offering to the developer and we take possession of the site and the buildings and continue what we talked about.

Mr. Brandt: I would not suggest that a teachers' organization would not be the appropriate vehicle to handle the

management and financing of a development of this kind, but there are other organizations, such as churches, service clubs, labour organizations, that have become in the past involved in similar kinds of developments. Had you considered at any time not necessarily making it an exclusive teachers' village--

Mr. Scott: Oh, yes.

Mr. Brandt: --and perhaps having one of these other organizations, such as the ones that I have mentioned, as the operating authority? They are nonprofit or set up in such a way that they can take advantage of certain incentives that are offered by government and this kind of thing. I just wondered if you had investigated that.

Mr. Scott: Not investigated in the sense of some other charitable organization replacing our own, but one of the very important bylaws of our organization is that accommodation is open to any retiree from any walk of life. If he is retired, he is welcome to the village. The only reason we focused on teachers is that we have links with other teachers through our federations. It makes it mechanically easier for us to get things done. We also find that teachers are prepared to meet on Saturdays and Sundays where some other groups are not quite that willing, because they are our work days when it comes to things like this. The teachers' involvement is the sponsoring, the investigation and the promotion and so on. The complex is for retired people across the board.

11:50 a.m.

Mr. Brandt: I have one final question in connection with the linkage between the work of this committee and what you are attempting to recommend to us. I know that you did touch on that earlier in response to another question but specifically, if this committee were to undertake to implement your recommendations, could you be a little more clear, at least for my benefit, on what you would like to see us do?

Mr. Scott: I would like to see a percentage of the teachers' superannuation fund cash flow--Mr. Wells, when he was Minister of Education about three years ago, suggested that perhaps 15 per cent of the cash flow might be diverted to other investments, away from government securities. If 15 per cent of the cash flow were to be so diverted, I would encourage the committee to recommend when legislation is being prepared that a portion of that cash flow be designed in such a way that social mortgage considerations as well as commercial are anticipated and responded to.

For example, Montreal Trust would probably be very happy to get access to 15 per cent of the cash flow of the teachers' superannuation fund, and they would probably be able to do very well with that in the marketplace in terms of the various endeavours they are engaged in. However, some special emphasis for a portion of that money being on social housing rather than just on commercial--the completely commercially viable housing. I don't knock commercial housing but I do feel that often the social housing in the marketplace has to compete in a rather challenging

way and we found that we have to compete in the marketplace for our mortgage money here.

Mr. Mackenzie: To put the comment in line with some of the remarks Mr. Williams was making, a reservation I would have would be if such a project were too large. I am wondering if one of the secrets is not in the size of it and that it is integrated fairly well with the community.

Mr. Scott: Yes, that is why we have looked at seven acres in Kitchener. We have also had serious inquiries from Peterborough and Thunder Bay. Any site we have looked at has always been in terms of seven to 10 acres, but it has to be in the core of the community. We don't want any situation where a person has to get on a suburban bus and drive maybe four or five miles out of circulation. He has to be able to go out of his front door, putter off down the road a bit, and find himself in the hurly-burly when he wants it.

Mr. Mackenzie: You may have commented on this, I am not sure. What seems to be the reaction of the various teachers' groups to using a percentage of their funds for such a project? Would you find them sympathetic to it. Do you have any feeling for that? Have there been any discussions?

Mr. Scott: I presented the general concept to every affiliate. As I mentioned, the board of governors of the OTF endorsed the concept by a vote of about 42 to eight. I presented it to the OSSTF and they supported it almost unanimously. The Ontario Public School Men Teachers' Federation has been very supportive as have AEFO, l'Association des enseignants franco-ontariens, and the Ontario English Catholic Teachers' Association.

For some reason I have never been able to plumb, although most of our superannuated members are women public school teachers, the Federation of Women Teachers of Ontario has not endorsed the concept. But, as you heard today, there is a consideration about investment and money and so on. So, we have four of the affiliates and the OTF endorsation. In my presentation to them, I outlined the social concept and the hope that ultimately a portion of the cash flow would be available for mortgages, although we are going ahead--we are going ahead, obviously, without that, but if we could get it, it would grease the ways a little bit.

Mr. Mackenzie: Was there any reason for, and was the 15 per cent a hard figure you were using in terms of recommendations for--

Mr. Scott: I would have said more had I been the minister at the time, but Mr. Wells did advance in the paper, and I did not bring the clipping down with me, that he was thinking that maybe 15 per cent could be made available on a kind of an experimental basis. It is a sizeable cash flow, as you are aware, and to have all of it suddenly flood into the marketplace would create ripples.

Mr. Van Horne: Just to refresh my memory, have not the men and women teachers been separate organizations from the beginning of time here in Ontario?

Mr. Scott: My memory of the history is that they have been and that there has been a very careful intention on the part of the women, especially, to maintain their identity.

Mr. Van Horne: So you should not be surprised that they would not endorse your program.

Mr. Scott: No, I am never surprised about it very much because I do realize that each group has a background of philosophy and history that directs them.

Mr. Van Horne: Yet there has been a move--and the ladies are in the background here so I am sure they will speak up if I am wrong--there has been a move to bring the two together. There have been moves, more than one, the most recent one within the last three or four years.

Mr. Scott: Yes, and that is between the two affiliates. I think the men public school teachers-- Just as an onlooker, I belong to a fully integrated affiliate, the OSSTF, the Ontario Secondary School Teachers' Federation. I understand that the pressure to create a single public school teachers' federation is mainly from OPS, but that is just my own observation looking on. The ladies will be able to advise me better on that.

Mr. Williams: Just following along on that point, Mr. Chairman, I am just wondering in view of the fact that the representatives from the FWTAO are still here, whether they would want to share with us their thinking at this point in time with regard to this matter and give us the benefit of their reasoning for taking the positions they do. It might be of some assistance to us. On the other hand they may wish not to get involved.

Dr. Henderson: Mr. Chairman, I appreciate the opportunity to enter into this discussion. Our point of view and our intentions, I think, can really only be represented by us and I do appreciate this opportunity to inject our point of view into this presentation. The position, and I softened this considerably when the question was asked of us earlier because as Mr. Scott indicated, most of the affiliates--all of the affiliates except ours--have gone along with the idea, generally speaking, of the diversification of funds. We have been very strong in our viewpoint and it has not been--

Let me backtrack and say I softened it because the position having been taken by the Ontario Teachers' Federation, I feel that is the Ontario Teachers' Federation point of view, so I did not want to strengthen our point of view just on the basis of that question. But the comments that have been made since have indicated that I think I should share with you our point of view and why it is what it is.

At the present time the teachers' superannuation fund is contributed to by the teachers and by the province of Ontario through the school boards. The money that is generated is, by and large, loaned back to the government at whatever interest rate for government investment.

There has been some concern on the part of some--Mr. Scott being one of them--through the years that the interest that has been earned by that lending of the money to the government has not been of the same order that could have been obtained through private investment. The reason that our organization has not gone that way of the private investment and the diversification of the funds is that, in return for the use of that money under whatever circumstances were generated by the commission, we have enjoyed the opportunity to have that fund sponsored by the province. The province since 1965, the time of the Ontario Pension Benefits Act, has undertaken to make up the difference between what is being generated and what is being--the actuarial deficit.

12 noon

The sponsorship of the plan by the province is to our federation a very important concept. We feel that is a very strong part of the plan and we cannot believe that the province is going to be prepared to give up 15 per cent or whatever amount back to the teachers to invest as they wish while retaining that whole sponsorhip of the plan.

That, in a nutshell, is the kind of concern that we have had; it is that idea of not losing the sponsorship, and it is what I referred to earlier in our presentation: There are advantages to the teacher from our point of view, of not diversifying. There are advantages from the point of view of some of the other affiliates in diversifying.

Mr. Haggerty: There is also a risk element in going the other way.

Dr. Henderson: Absolutely.

Mr. Haggerty: Without being secured.

Dr. Henderson: Very much; and it is that risk which we feel we cannot responsibly accept for the people who are now superannuated and who are about to be superannuated. I had not intended to lay that all out, but it has nothing to do with a minimized social responsibility; far from it. I would say that our federation has had a strong social conscience and it is rather a guarantee of safety for everybody who is being covered by that.

Mr. Chairman: But I think, Dr. Henderson, that that has been apparent, your social responsibility; the entire thrust of your submission was towards helping women, not isolating your own particular profession. I appreciate that, and I think the other members do as well.

Mr. Van Horne: I have a question of either of these two people, Mr. Chairman, and that is that no change could be made without all parties agreeing, is that not true? So, as long as the women teachers feel the way they do and as long as they continue to be a group separate from the men teachers and the other teachers--all of these dollars go into the one pot.

Dr. Henderson: But I would say that I would emphasize again that the Ontario Teachers' Federation, which is the composite body which deals with the government, has taken at least some position on this as identified by Mr. Scott. To that extent our federation cannot hold back what all the teachers of the province, taken together in the Ontario Teachers' Federation, would do.

It is a reason, if I may say so, our federation has maintained its separate identity against the kinds of pressures to which you drew our attention a few minutes ago and the very reason why we made the kind of presentation we did this morning.

Mr. Van Horne: A further question, if I might.

Dr. Henderson, you made reference to those words you were searching for, the actuarial deficit. You will recall back in late 1977 or early 1978 that a considerable deficit was accommodated by the process wherein government in the reviewing realized the shortfall and had to twice come to the Legislature with supplementary estimates totalling somewhere near a quarter of a billion dollars. When this was questioned through a committee of the Legislature, the social development committee, the minister, Mr. Wells, and the Treasurer at that time, Mr. McKeough, suggested that the process of actuarial assessment or whatever the great terminology is was, in a sense, in-house yearly, but done externally approximately every five years.

It was apparent to some of us that process was inadequate. The teachers I spoke to afterwards in the superannuation commission and those who I knew across the province because of my involvement in teaching suggested they had to keep a better eye on it. Are you satisfied that is happening? Are you insisting on an actuarial review of superannuation funds on an annual base?

Dr. Henderson: When you get into the specifics of superannuation, I would prefer that Ms. Byrne answer on our behalf. I am answering for the policies of the organization rather than the specifics.

Mr. Chairman: With respect, I should point out that the Federation of Women Teachers' Association of Ontario have had their opportunity to make the presentation. I did not want to reopen your submission. It was just a matter of giving you the opportunity to respond to Mr. Scott.

Dr. Henderson: I appreciate that.

Mr. Chairman: I think you have helped the committee in that regard.

Mr. Williams: If I might, there are two questions I did want to ask of Dr. Henderson before she retired, simply because it is important for the committee to understand why there was the one differing point of view from this very significant group within the total organization of teachers.

There were the two elements, as I understand it, which give

your association cause to differ with the others; one that your perception is that your arrangements with the provincial authorities, as far as the funding of the programs is concerned, would be undermined or weakened if this liberalization of the use of funds was permitted. But I gather that is an assumption on your part and has yet to be really verified in these ongoing discussions with the province. I presume you have never really put the question to the province on your own, have you, as to whether this would be a viable thing?

Dr. Henderson: Our organization has not put it to the province because we deal with the government through OTF. But I did mention in our presentation that discussions are in process and in progress right now between the OTF and the government. All of these things are being discussed including some of the concerns which our organization has.

Mr. Williams: There was just one other question. Mr. Haggerty mentioned the risk factor and you have confirmed that it is a very major concern to your association. Yet, on the other hand, would the element of risk not, however great it might be--and I suppose it is low to moderate, based on past experiences of investment in bricks and mortar, as Mr. Scott is talking about--be more than offset by the social enhancement that would flow from developing a community concept, particularly when in your own brief you highlighted the fact that women are outliving men, and that they would be the ones who would be the better to benefit from this social community which would be developed? Are you not, by opposing the concept, working against your own best interests in that sense?

Dr. Henderson: I should say, first of all, that the idea of this kind of retirement program has not been an integral part of the diversification of funds. I am reading the presentation that is made at this time to say, if diversification were to happen, this might be a way of using some of those funds. So our position on diversification had nothing to do whatever with the goodness or badness of a proposal such as this.

Mr. Williams: I see. Okay.

Mr. Chairman: Thank you very much, Dr. Henderson.

Mr. Scott, do you have any further comments?

12:10 p.m.

Mr. Van Horne: I would like to, if I could direct a question that I did to Dr. Henderson, redirect that to Mr. Scott. Are you satisfied with the actuarial review?

Mr. Scott: Let me give you a little background to that. As a commissioner, when I started exploring the actuarial bases of evaluation, I discovered that our actuary for the first 50 years of the fund's existence made no provision for salary increases.

He always estimated there would be negative salary increase the following year. In the light of experience, this was an extremely conservative point of view. Of course, as inflation got

worse, the projections became less and less realistic. When the actuary, for whom I have a tremendous personal regard--I think he is a great person in his profession--retired and we were in the process of hiring a new actuary, one of the things I insisted upon was one of the commissioners interviewing the applicants for the job and to ask, first, "Do you personally approve of what is called the snapshot, periodic actuarial evaluation?"

None of the actuarial firms applying said they agreed with the concept, that it was an old-fashioned concept which had long since proved to be less than valid. The substitute, of course, is what is called a cash-flow actuarial evaluation. I said to them, "If you are hired as the actuary for this fund, will you, in addition to the snapshop evaluation that is required by the provincial government every three years, provide us with an ongoing cash-flow evaluation?" They agreed to do so. The cash-flow evaluation demonstrates beyond question the adequacy of the fund.

The snapshot evaluation, which was based upon many considerations which have practically a zero possibility of coming to pass, were relatively--what should I say?--were figures that one could not look at with any degree of confidence. Let me give you a specific example of that.

In 1969, the actuary for the fund said there was a $328 million deficit in the fund. The following year, the auditor general for Ontario said that in 1969 there was a $282 million actuarial deficit. There was a $100 million difference in the figures given by the two groups. I immediately wrote to both of them and asked which one of them was right and they replied that they both were.

One was right that there was $328 million and the other one was right that there was $228 million because the auditor had written correspondence to the actuary and, in terms of correspondence, the actuary had, for the auditor's purposes, agreed to a reduction of the figure from $328 million to $228 million. This was an illustration to me that actuarial figures on a snapshot actuarial basis become things to play around with.

When the new actuaries were hired, they said: "There is going to be an increase in salary. Let us face it and let us build that into our considerations. There is going to be this liability and that liability." In terms of the snapshot evaluation, the deficit went from $328 million and the next evaluation was $507 million and the next evaluation was $1 billion.

So these actuarial evaluations are very flimsy kinds of things when compared to cash flow evaluations which ask: "How much money do you have? How much it is earning? How much is going out?" When you look at it in terms of projecting it 100 years down the line, teachers could stop contributing tomorrow and still get pensions for years if you look at it in terms of cash flow.

Mr. Van Horne: The point is that it has to be reviewed, it has to be overseen, and the process which existed prior to 1976, which I think was the date you used, was not really quite adequate.

Mr. Scott: No. It was not.

Mr. Van Horne: You are satisfied now that the cash flow review is much more adequate.

Mr. Scott: It is much healthier.

Mr. Chairman: Are there further questions? Thank you very much, Mr. Scott. You have been very helpful and very interesting.

Mr. Scott: Thank you, Mr. Chairman, and members of the committee. It is a privilege to be here and I am pleased to have had this opportunity to share with you these views. If you are in Kitchener at any time and want to come around and see our Belmont place, we would be only too happy to have you do that. We are looking forward to our village and we hope that it becomes something of an example for the way elderly people can live when they leave the work place.

The committee recessed at 12:20 p.m.

PR-7

SELECT COMMITTEE ON PENSIONS

REVIEW

TUESDAY, JANUARY 12, 1982
Afternoon sitting

SELECT COMMITTEE ON PENSIONS

CHAIRMAN: Taylor, J. A. (Prince Edward-Lennox PC)
Brandt, A. S. (Sarnia PC)
Cousens, D. (York Centre PC)
Cureatz, S. L.; Deputy Speaker (Durham East PC)
Gillies, P. A. (Brantford PC)
Haggerty, R. (Erie L)
Jones, T. (Mississauga North PC)
Mackenzie, R. W. (Hamilton East NDP)
McClellan, R. A. (Bellwoods NDP)
Riddell, J. K. (Huron-Middlesex L)
Van Horne, R. G. (London North L)

Clerk: White, G.

Researcher: O'Mara, J., Legislative Research Service

Witnesses:

From the Ontario Secondary School Teachers' Federation:
Hughes, D. J. S., President
Ouimet, J. R., Chairman, Superannuation Committee
Richardson, General Secretary

Dulude, L., Private Citizen

LEGISLATURE OF ONTARIO

SELECT COMMITTEE ON PENSIONS

Tuesday, January 12, 1982

The committee resumed at 2:10 p.m. in room No. 151.

REVIEW
(continued)

Mr. Chairman: I see a quorum. We have with us this afternoon the Ontario Secondary School Teachers' Federation. In addition to Mr. Morris Richardson, the general secretary, who appears on your agenda, we also have with us Mr. Bob Ouimet, chairman of the OSSTF provincial superannuation committee, and Mr. David Hughes, executive director.

We have your brief which has been distributed, gentlemen, and we are in your hands as to how you wish to present it. You can read it or talk from it or whatever you like.

Mr. Hughes: Mr. Chairman, if I could start with one correction, I am Mr. Hughes and I am the president of the OSSTF. The gentleman on my left is our general secretary, and on my right is Mr. Ouimet.

I take with care, sir, the comment which appeared from the clerk of this committee: "The committee requests that your opening statement be limited to about 15 minutes and that your brief be presented in summary, rather than read in its entirety."

At your discretion, what I would like to do is merely highlight some of the items which are articulated in the brief which you have before you and then hope that we will have adequate time for dialogue and for questions and answers.

Mr. Chairman: I want to assure you that we have always been relatively flexible, notwithstanding your communication from the clerk. I am not suggesting you are not any more accurate, Mr. Clerk, than you were in the (inaudible) of the delegates, but we are in your hands. We are interested in what you have to say and we just want to be as productive as we can.

Mr. Hughes: Thank you, Mr. Chairman. Referring to the document you have in front of you, I would like to begin with two preliminary comments.

It came to our attention recently that the Prime Minister of this country stated that pensions were the third most important issue to Canadians and when it was tested he said that was, of course, after the constitution and the economy. I assure you that, from the point of view of most teachers, pensions would be at least second in that list of three. It is rather more important in our mind than at least one of the issues which he addressed. I won't indicate which.

Interjection.

Mr. Gillies: Can we ask questions on that?

Mr. Hughes: I thought it might get things off to a dialogue.

I just have one general comment to make. I think you must understand that, from the point of view of teachers, our primary concern in the pension field lies with the teachers' superannuation fund. I think you should be aware that we have one major concern.

We have had amendments before the government with reference to the Teachers' Superannuation Act since 1977. Since the royal commission was established, it has been the position of the government, for good or bad, that any changes in the teachers' superannuation fund should be held until the report has come in and, I assume, until such deliberations as this committee or undertaking have been fulfilled.

We have an obvious concern over this. Clearly, since 1977 there have been significant changes in the employment patterns of teachers in terms of the length which they teach and in terms of the nature of the income. I think we are all aware that there have been significant changes in employment patterns of both males and females and, of course, there have been significant problems arising from the difficulty of declining enrolment.

I think I must stress to this committee that one of our major concerns is the need from our point of view for speedy and effective amendments to the Teachers' Superannuation Act which we would hope would become part of whatever larger picture develops out of the evaluation of the royal commission.

As I go through this paper, as I said, I am simply going to identify one or two items which I think might well require clarification.

At the bottom of the first page we have identified the statement in the report where it expresses concern about the amount of money the government contributes to the teachers' superannuation fund. We make the statement there that we do not believe the amount is too high.

I would also point out, since I started on a vaguely political note, that a reference appears there that the teachers have provided the people of Ontario with money at low interest rates for many years. I would point out that this remains a current concern of ours in that in the last week or so it has become apparent that the teachers' superannuation fund was a source of much money for the purchase of Suncor and that the rate which was made available to the fund for that purchase was a clear two and a half per cent below the Hydro bonds which were available at the same time.

I am not going to make an emphasis of this other than simply to indicate that one of the reasons why the teachers' superannuation fund could conceivably have been in difficulties would have been that the investment rate over a period

approximating 20 years was, I think, never better than the minimum that could be obtained on the open market. The funds that were made available to the government were consistently lower than those that were obtainable on the open market and, of course, as we know, the fund has long been a very major source of revenue for the provincial government.

At the top of the second page, I would like to emphasize a concern which this federation has with the basic concept embodied in the royal commission; that is, the PURS concept. I will read one sentence: "It could become a nightmare of epic proportion if our ambition is not merely portability but also equity, a pension benefit in relation to contributions made."

We have two feelings about any pension structure. Number one, it is not intended as a speculative investment but for the purpose of the average citizens, including teachers, it is a source of more or less guaranteed income. We very much fear that if the PURS concept is embodied in its full, if every individual, taking the literal interpretation of the concept, has free choice in degree, type and nature of investment, what it will result in, whether by intent or not, will be gross inequities in terms of amount invested, in terms of pension received.

I think we can say freely that this may well have been the choice of the individuals, but I think it would be very difficult to explain to retiring senior citizens 30 years from now that one who has a pension of, let us say, $2,000, and another who has a pension of $1,000: "I am sorry. It was your fault; you made the wrong investments two decades ago." To our mind, such a concept, although it may be helpful from the point of view of Bay Street, is contradictory to the perception of a pension as opposed to an investment source of income.

The other major difficulty we have is that we feel the teachers' superannuation fund should be the primary vehicle for the pensions of teachers. If that is to be the case and if at the same time this PURS concept, which is applicable to all people in the province of Ontario, takes effect, we see, and we have articulated below, major difficulties in terms of the portability of one to another.

This would not be a difficulty if the traditional pattern had existed whereby somebody became a teacher and remained a teacher for all of their lives. But I can assure you, from our perception in representing high school teachers, that is a definite, almost old-fashioned trend. A larger and larger proportion of our members are switching out of the profession; a larger number of people are coming into the profession at a later age.

I think members of this committee can see the enormous difficulties involved in taking PURS contributions into the teachers' superannuation fund, or from the teachers' superannuation fund into PURS, depending upon the facts of the matter; and, of course, the whole problem is compounded if other public service pension plans exist and other privately regulated plans are also in operation.

As I said, the point we would like to emphasize here is the two essential weaknesses that we observe in the PURS concept.

2:20 p.m.

At the top of page three we have made a reference to the superannuation adjustment fund. This has been stated because we thought it might be of interest to members of this committee when you are looking at the whole concept of the funding and structure of pension funds.

Very briefly, Mr. Chairman, in addition to the main fund into which teachers invest and where there is a matching contribution by the government, there is an additional, separately regulated and separately funded plan which attempts to make allowances for variations in inflation. At this point we are satisfied with the concept and, as I have noted there, negotiations are under way at present between representatives of teachers and representatives of government with reference to changes in this plan.

I express it, though, because it may be of interest to members of this committee as a concept which would be helpful in trying to determine what should be done with other plans--particularly, I would suspect, jointly funded private plans; in other words, instead of trying to adjust a main plan, the possibility of creating a separate plan, separately funded and separately organized, which might try to take account of short-term or long-term exaggerations in inflation.

With reference to integration, essentially, way back in 1965--and, incidentally, for the record the correct date should have been January 1, 1966--at that time the teachers wished for the Canada pension plan and the teachers' superannuation fund to be stacked; instead, they were integrated. However, as we emphasize there, if any considerations should be made as to the relationship between the teachers' superannuation fund and PURS, or whatever concept is finally articulated, it is our feeling that stacking would still be our choice rather than integration.

The teachers' superannuation fund is so long established--as you may know, it has existed in its full form since 1920 and there have been teachers' superannuation plans since the end of the nineteenth century--that to integrate such a concept, such a degree of investment, such a degree of commitment into a new plan of this date would be dangerous. To stack is one thing; to integrate would have enormous and probably unfavourable consequences.

On the last item on page three we feel there should be an opportunity whereby the plan could indeed be diversified. We have carried out, as I am sure members of this committee have done, some comparisons with what is the case for the teachers' superannuation funds in New York City. We have tried to articulate in this section a certain caveat that must be observed if indeed diversification is to be undertaken.

Diversification in theory might be of great benefit to the economy of this province and, for that matter, of this country. However, it must be undertaken cautiously. The concept of shared

contributions must continue and, as you will notice on the top of page four, it is important that there be very firm and careful controls placed as to the nature of the investment process.

In our opinion, to simply diversify overnight would quite frankly lead to some of the problems that we anticipate if the PURS concept were applied in full.

The last comment I would make before I ask my general secretary to make a brief observation on one section is on the item headed "Parity with the Public Sector." I hope you do not consider this special pleading on behalf of an organization whose fund is a public fund rather than a private fund but, in view of the stress evident throughout the royal commission report on the discrepancies between public funds and private funds, we felt it important to emphasize some of the reasons for these differences.

It has to be recognized that by and large in private funds, in collective negotiations and bargaining, there has been a difference in stress. Most public sector employees, particularly teachers--I suspect the same may be true of civil servants; I won't indicate all the other groups it may be true of in the public sector--certainly appear to place a higher premium on retirement, on long-term security. I suspect that is the primary reason why public sector employees appear to have more generous plans at their disposal than is true of some private sector groups.

You will notice that when we identify such items as chartered banks and Shell Oil, it has been our experience that plans in the private sector which were established some time ago share many of the characteristics of the teachers' superannuation fund and indeed on many occasions take it further, so that in many cases they are fully funded by the employer rather than matched funding between employer and employee as is true of the teachers.

At this point, Mr. Chairman, with your permission, I would like to ask Mr. Richardson, our general secretary, to comment on the next item before I simply conclude.

Mr. Richardson: Mr. Chairman, Mr. Hughes commented in his opening remarks that the OTF has been negotiating with government this past year and we have had amendments to the Teachers' Superannuation Act before the government since 1977.

As part of that and leading up to it, starting about 1975, we did have meetings with government personnel to bring about amendments to the Superannuation act, some of which were necessary because of changes in a technical way and some primarily because of the change in structure of the teaching profession and declining enrolment that has been prevalent since that time.

We were concerned as an organization as early as 1972 with what I call a false declining enrolment when government brought in fixed ceilings on government expenditures at the school board level. That did create a situation where a number of teachers who were in the teaching force were dismissed because there was not enough money to maintain them on the teaching staff.

We are concerned that at a time when declining enrolment is seriously affecting both the morale and the structure of the teaching force that nothing has been done through the superannuation fund to alleviate this.

If we go back to 1977, which was the time when we had amendments before the government, that was the time when the government instituted the Jackson commission to look at declining enrolment. Through that report there were several recommendations that might have alleviated to some degree some of the concerns we have. I may refer to several of these.

In recommendation 81, the Jackson report indicates that, "After early retirement, up to 100 days of teaching employment per year instead of the present 20 be permitted without penalty to age 65." In recommendation 82, "The superannuation regulations be amended to permit during the period between now and 1986 early retirement on the basis of the 85 factor."

As you are aware, the current act and regulations have a 90 factor.

He also indicates that the fund should be monitored during that period of time to determine whether there is any necessity of additional contributions by teachers or government.

Another recommendation he has in his report is that the concept of continuing employment be instituted for full-time and part-time appointments so that those people who are in their senior years could take up part-time employment, allowing some people to come in at the bottom end but still be able to contribute to the fund and receive benefits which would be normal under the pension provisions.

We feel strongly that this is an area the government has not addressed at a time when it was needed to the degree we think it should be. We did have a government document through the Ministry of Education called Issues and Directions which was supposed to address the recommendations of the Jackson report, but instead became a broad perspective of educational changes that might occur in the next decade, very few of those dealing with the declining enrolment situation.

2:30 p.m.

We hope, and I echo what the president has said, that the whole superannuation question has been put on the table, so to speak, pending the commission report and pending recommendations from this particular committee.

Even though there has been before the current minister ministerial approval of certain recommendations, those have not been acted on; and there is a frustration level, as you can imagine, arising with teachers when we go back to 1975 with the kind of economic changes that have occurred over the last six or seven years, with no recognition through the superannuation fund to meet some of the very current needs that teachers have.

We hope this particular committee will address that problem if you are going to deal with the public sector pensions and will recognize the severe need, from a moral and an economic viewpoint, of changes in the teachers' superannuation fund. I cannot think of anything our teachers are more concerned with relating to pensions than this particular area.

I will turn it over to the president for conclusions on our report.

Mr. Hughes: In conclusion, I cannot do better than summarize the points which are articulated at the end of our document.

We believe that negotiations between groups, whether they are joint employer or government employee, must be established in all plans so that all the parties have input into them. As I said before, we feel that the teachers' superannuation fund should be exempted from the PURS concept, if indeed the PURS concept is implemented.

We have said here that we recognize the necessity of a measure of protection through some form of indexing for all pensions in Ontario and, from our experience in having a form of indexing, would recommend to this committee that you consider it for other pension plans because we have found it particularly worth while.

Although we agree with the royal commission that some form of compulsory pension is appropriate, necessary, generous, rewarding and probably expected for all citizens of Ontario, we do disagree that the concept of PURS as embodied in the report of the royal commission is the appropriate one for the implementation of that.

To conclude, as the general secretary has said and as I will reiterate, at this point with an ageing teacher population which is under stress in terms of declining enrolment, there is probably nothing that is more significant to them than the speedy implementation of recommendations that would help them in their particular sphere, particularly in the area of declining enrolment, and that would hopefully form part of a larger series of recommendations relating to pensions in Ontario.

Mr. Chairman, on behalf of my organization, I thank you for the opportunity to make this presentation.

Mr. Chairman: Thank you very much, Mr. Hughes.

Mr. Gillies, you had indicated you wished to ask a question.

Mr. Gillies: Thank you, Mr. Chairman. I would just like first of all to get a little background information from you gentlemen on one point and then I have a question for you. One thing that we are very concerned about on the committee and that we eventually ask every delegation that comes in, is the question of coverage.

I wonder if you could briefly outline for me the situation

for members of the teachers' federations in terms of coverage. By that I mean, are part-time teachers included in the fund automatically or can they opt into it? Just what is the situation there? I might say that I mean teachers who may have only taught part-time or supply taught over the long term, and teachers who have taught full-time and then later want to become part-time or supply teachers.

Mr. Richardson: Both part-time and full-time teachers are obligated to be part of the fund. The teachers on the main fund pay six per cent, while those on the adjustment fund pay an additional one per cent, and there is a matching contribution by the government to the six per cent and the one per cent. Essentially, all teachers except short-term supply teachers are in that situation.

Mr. Gillies: Everybody is in; okay. You said in your presentation that, because of many of the economic changes that have taken place in the last six or seven years, you thought there were some much needed changes to the TSF. I wonder if you could briefly outline for us what a couple of those major changes might have to be.

Mr. Richardson: One of the major concerns we have and one of the problems we run into in dealing with government people is the obligation of government in the funding responsibility. There is a formula now for establishing the interest rate. We feel that, if the interest rate were somewhat more current, that would alleviate some of the funding responsibilities of the government and, in turn, give a better possibility of improving the pension fund itself.

As far as the actual pensions are concerned, the pension is paid on the best seven years; it is an average of the best seven years. That is a long time to have with an expanding economy. We think that period of time should come closer to some other pension funds, either the best five or the best three, to make the initial pension much more concurrent with the economic conditions when the person retires. That would be a major one.

As I made allusions to but did not specifically say, because of the large number of teachers who are becoming somewhat senior in age because of declining enrolment, with nobody coming in at the bottom, we think there has to be provision for early retirement. The superannuation fund itself could facilitate that in having a better pension basis for early retirement. There is nothing now really. There is no incentive through the pension plan for that.

I might just make reference to the adjustment fund where there is not even an opportunity for short-term investment from the adjustment fund; for all of the money, other than that paid out for adjustment pensions, the interest rate is established by a formula. There is no possibility even of short-term investment at the preferred rates. As a result, the viability of that particular fund is somewhat inhibited because of that. That fund has survived strictly on how long will that kind of money keep the fund going? That would help in this kind of thing.

Mr. Hughes: Perhaps I can give a very specific example of the kind of concern you have. The regulation at the moment, and I can be corrected, is that the amount of money available at retirement is the average of--technically, it is actually the best 70 months, I think, not the best seven years.

I think you can see what will happen if one of the trends which develops in education, and to some extent we encourage it, is to have part-time teaching. Let us suppose that somebody is teaching for only half a year. As regards the calculation of retirement pension of somebody who has been doing that, running back and forth 14 years, from the point of retirement, we think that degree of inflexibility, which may well have been appropriate in the fund when it was being designed in 1975 and 1977, when societal conditions were different, is now quite inappropriate. We are seeing within the profession much more fluctuation in habits of teaching, habits of lifestyle, if you like, within the profession.

Mr. Chairman: How long has that seven years been in effect?

Mr. Richardson: Oh, 1966; when the Canada pension plan came in, it went from the last 10 years to the best seven years.

Mr. Chairman: You have to look at these things in the long range, do you not? Maybe a few years from now we will look at the present economic conditions as an aberration. I do not know. But I can see what you are saying. If you have a teacher who is teaching only six months of the year, and you have a spread of 14 years, that would have a significant impact. Do those have to be consecutive years or do you take the best seven years?

Mr. Hughes: What happens is that the commission simply makes a calculation of the income of the teacher or, if necessary I months, takes whatever are the best 14 of

Chairman: Go ahead, Mr. Gillies.

Mr. Gillies: Thank you, Mr. Chairman. What's your vesting situation now? Is there immediate vesting in that fund? Or is it--

Mr. Ouimet: In which one?

Mr. Gillies: In the TSF.

Mr. Ouimet: Vesting is after 10 years.

Mr. Gillies: That's in the main fund?

Mr. Ouimet: In the main fund.

Mr. Gillies: There is an age factor, isn't there?

Mr. Ouimet: Ten years and age 45.

Mr. Gillies· So presumably--and I am sure you are aware of the recommendation in the interim report for a five-year vesting with no age qualification--that would change, then.

Just by way of a short comment, Mr. Chairman, if I may: It doesn't bother me as a member of the committee that you are recommending that your fund opt out if we were to adopt the first concept, because I certainly think that if we go the PURS route there would be considerable sympathy among some of us on the committee for the concept that if funds can demonstrate that, in one way or another, they are superior to what is being recommended under PURS we have no problem with opting out.

But we did have some discussions about this in the committee last week. I think there is quite a bit of sympathy for that concept, and certainly I think the fund that you have would qualify for that.

Mr. Hughes: I would just like to add--and I am very appreciative of the comment you have made--that if there were indeed a separation out, opting out, we still have the concern over portability because of the change in the employment patterns, which I think is not just typical of teachers but is characteristic of many people.

We have predictions--and I don't know whether they are true or not--that the average high school student whom we will be graduating this year can expect to go through five different forms of employment--not employment, but forms of employment--over his working career. I think that demonstrates significant problems in the area of portability.

Mr. Gillies: Certainly there would have to be some mechanism whereby funds from your plan could be rendered into a form where they could be put into PURS at the time a teacher leaves the profession.

Mr. Richardson: We made reference in here to the portability, if you like, with the public service fund, and if one could make arrangements with other types of funds similar to that I think that would be satisfactory to us.

Mr. Gillies: Thank you, Mr. Chairman.

Mr. Williams: I just had three or four questions, Mr. Chairman.

First, in the first part of your brief, the first paragraph, you say: "One of the reasons public sector pensions are generally better is that public sector bargaining in the past laid special emphasis on pensions; public service employees contributed a high percentage of their salary to their pension funds, whereas many private sector employees did not."

You go on to state: "In return for long-term security, public sector employees then accepted a situation in which their wages lagged behind settlements in the private sector." Then I think you re-emphasize that point on page four, where you state that it is

one of the two factors that you suggest the royal commission didn't recognize at the time of being critical, I guess, of the public sector in leading the private sector, if it was a form of criticism.

The perception in some quarters is that historically that was correct. I haven't heard arguments to the contrary; I think that's quite valid. But the perception in some quarters these days is that the pendulum has swung the other way: that whereas in exchange for the fringe benefits, including pensions, enriched benefits, they used take the lower immediate cash in hand, so to speak, that has changed somewhat.

This is the criticism we get in the public sector generally and not just in the teaching profession, that in the public sector, in the teaching profession, the salary ratings now match and, in some areas, perhaps where greater seniority is involved, exceed what you might find as the norm in the private sector. On that basis there is some justification for considering reassessing the further enrichment of public sector pensions in particular to adjust the catch-up that has occurred in the salary area and level off in the benefits area.

Would you care to comment on that perception as to whether there is some reality to that?

Mr. Hughes: Mr. Chairman, I must say that we made the comment because of the assumptions implicit in the royal commission report. I think it would be, to put it mildly, a very debatable issue, which I hope will be discussed here, as to whether private sector or public sector employees have traditionally and historically done better or will do better in the future, specifically in the areas of pension, fringe benefits or salaries.

We are concerned to emphasize that, for good or bad, the teachers' superannuation fund, its concept, its returns, were established some time ago, to put it mildly, under certain understandings about salaries, security and the relative importance of both. It may well be that in the future the pendulum will swing the other way; a decade from now it might well swing back.

What we are saying is this: One of the concerns we have with the royal commission report is that whatever historical analogies they could draw or whatever guesses they make in the future as to the relationship between the two sets of plans, it should not be taken as a reason for amending the structure of the teachers' superannuation fund.

For good or bad, we as an organization have always placed, I think, higher stress on retirement than was true of many private sector employees. We are not suggesting that we should reduce that stress; we are not suggesting it should be increased. We are saying the plan was structured with that understanding, and that just because the royal commission feels there is a danger that some public sector plans will set bad precedents for private sector plans is no reason to change the teachers' superannuation fund.

I could certainly agree with you, having done a fair amount of negotiating myself, that there has in the last five or six years

been a steady tradeoff in all sectors between the importance of fringe benefits and pension. As a matter of fact, I would dispassionately say that there has been a greater change in the relationship between fringe benefits and salary than there has been between pension and salary. That's something, I think, which is probably a function of the inflation factor and the tax structures, above all, in this country. I think the last federal budget, quite frankly from my point of view, might see some changes in the relative importance we give to fringe benefits, which are now taxable.

Mr. Williams: I gather, then, that you agree that some balancing is valid, and the question of where you lay your priorities is up to the individual association or union or whatever that is negotiating as to where you want to put the emphasis.

Mr. Hughes: That's why one of the primary conclusions we came to, sir, was that the exact structure of whatever plan is in existence must be arrived at through bargaining, whether it be between government and employee or employer and employee.

Mr. Williams: On page two, members of your federation reject the money-purchase concept and endorse fully the service and salary concept. Again, this is something I guess you were touching on when speaking to Mr. Gillies's question. Would you care to elaborate further on that?

Mr. Richardson: Well, if I may elaborate just a little bit. As we understand the recommendations in the commission report, there would be provisions for individuals almost unilaterally to determine the kind of investment or money-purchase concept that they have through the PURS procedure.

What we see in that is very much like what happens in society generally if you give anybody $1,000: How somebody will end up with that $1,000 depends on the individual to a great degree and how he properly can handle that. We see probably more inequities through this process, as I understand it at least, if it's followed that way.

2:50 p.m.

We think the plan we have in TSF, for instance, where the rules and regulations are established and there is a commitment--sometimes we have to force particularly young people to think of what they are going to do in their old age and what kind of income they are going to have so it won't be an obligation to society to the same degree--that kind of process is probably more appropriate. The PURS concept may not reduce the public obligation in the long run.

Mr. Williams: In the next paragraph down: "Should PURS be legislated, a person transferring from the provincial universal plan into the TSF would be provided with the opportunity of full or partial portability provided payment, if required, is made by the individual concerned over a period of time."

"Would be provided with the opportunity of partial

portability": You make this comment. What is your position with regard to it?

Mr. Hughes: If I can put it this way: We have an obligation, I think, for our profession as well as for pensions. As I said before, we visualize the situation, thinking ahead over the next decade or several decades, where it might be helpful to the teaching profession to have people coming into it at some point other than the traditional age of 22 after three, four or five years of university preparation.

At the moment, the teachers' superannuation fund, like most funds, of course, is biased. I am not being critical in that sense, but the longer you have been in it, preferably the earlier that you started, the more likely you are to have a satisfactory pension. If, therefore, there is a PURS and everybody in the province is a member of it and has vested rights in it it is going to be essential that somebody who is, for example, an auto mechanic at the age of 35 or 40, has obtained a degree of investment in the PURS and then decides to become a teacher and, therefore, from that point is acquiring assets in the teachers' superannuation fund, must be able to transfer those assets, in our opinion, if he wishes to come into the profession, if he is to have an adequate pension on retirement. A formula will have to be created whereby he can come in. This is where the "full or partial" comes in. If in his opinion the assets he is bringing in would not be adequate to give him a suitable pension in comparison with that of his peers, he would have the ability to add funding or, if necessary, to transfer part of it.

We are not sure of the details. It's another comment on what we see as the problems in portability. As I said before, it works the other way around, which is what the next paragraph is referring to.

Mr. Williams: The other question I had was on the bottom of page five in your conclusions: "OSSTF recognizes the necessity of a measure of protection through some form of indexing for all pensions in Ontario." I would direct you to page 19 of our interim report, where we draw attention to the fact that "the Ontario Public Service Employees Union told the committee in their appearance before it that they favoured the excess-interest approach. Their current indexing provisions are full indexing up to an eight per cent cap with provision to roll over any unused portion to future years. OPSEU is willing to give up these benefits in favour of a legislated excess interest approach. In the long run they may perceive this to be a more secure way of ensuring the indexation of their benefits."

Do you have any comment to make on their position as it might relate to your situation?

Mr. Hughes: We have reservations about the excess-interest concept. Several of our staff attended a recent conference in Ottawa where it appeared to be "the coming thing." It was a nice, easy answer to the solution.

If you look at it critically, though--and I will ask Mr.

Ouimet and Mr. Richardson to add to my comments--I don't think it will necessarily work. It will only work at a time when the interest rate is clearly in excess of the inflation rate

(Mr. Hughes)
It will only work at a time when the interest rate is clearly in excess of the inflation rate. The average of that excess must be operative both at times like this and at the opposite end of the economy, when interest rates happen to be lower than inflation rates which, although it may seem long ago to us, does happen on occasion.

Mr. Williams: The definition of excess interest is not related to the inflation rate.

Mr. Hughes: If I could take the case of the teachers' superannuation fund, presumably a realistic interpretation of excess interest is when the fund, due to its investments and the interest accruing, is producing moneys in excess of that which is actuarially required to balance the obligations of the fund. I think that is a fair interpretation.

At a time like this, for example, if the teachers' superannuation fund is being invested at about 16 per cent, and the actuarial requirement was in the order of 11 or 12 per cent, yes, you would be identifying four per cent excess. But it is only times like this. At the reverse point of the cycle, I do not think it would be generating like as much money and certainly not as much guaranteed money as would be applicable to a separate fund which is calculated to the inflation rate in effect.

Mr. Richardson: One of the difficulties we had, we have not really studied in great depth the implications or had any actuarial people look at the implication of this, so we cannot make a very definitive statement on it. Our general reaction is that there may be other ways in which we can accommodate the same thing rather than through this, although, in my own personal opinion, it may be something that is worth while considering.

Mr. Williams: As I recall, from presentations earlier from some of the so-called actuarial experts that were before the committee, they were identifying excess interest as being anything over and above what they termed real interest, which was in the neighbourhood of three or four per cent.

They gave reasons for using those figures, and certainly differ greatly from using an inflationary percentage factor which you are relating to. So this has been part of the problem with the committee of trying to come to grips with what is the true definition of excess interest. You have again the two ends of the spectrum we are touching on.

Mr. Hughes: All I can say is I gather the accountants, especially government accountants, who have analysed the teachers' superannuation fund, certainly appear to have used a different definition to those accountants which were quoted before this committee. They do not often use the expression three or four per cent in this situation. They are talking something in the order of

12 or 13 per cent.

As I said, if I could take up the offer made by the general secretary, at some point if the committee would like us to examine, as an interested party, the concept of excess interest investment, as an alternative to the one which we are at present operating at, if you would communicate to us, we will be glad to give you a more rational, more clinical and apt reply.

Mr. Williams: I think the committee has been impressed enough with the excess interest concept to have given support in principle to that idea so that, on that basis, if we are going to be moving in that direction as compared to indexing as it is at present applied, it is probably going to mean a significant shift in a number of the plans that are about.

Mr. Hughes: If it is of value to this committee, we are prepared to make a direct comparison, if you like, of the excess interest approach compared with the one which we at present operate under, which is the superannuation adjustment fund. And more appropriately, to examine how it would apply to our particular fund. We are caught, as you are, in terms of actuarial deficits, and so forth and so on. Unless we have specific figures, and a task, it would be very difficult for us to make a comparison.

3 p.m.

Mr. Williams: It might be very useful and something the committee might want to consider. Any invitation from witnesses to assist us in our task is not usually turned aside.

Mr. McClellan: The gentlemen can probably be set somewhat at ease. With respect to the PURS proposal, we had our own mandarins in from the Ministry of Treasury and Economics last week and they produced a fairly devastating, what I would describe as, obituary to the PURS scheme. I do not think I am being rhetorical, but I do not think I am exaggerating the point. There has not been very much, to put it mildly, support for the PURS proposal.

I wanted to question a kind of ambiguity within your report with respect to, I suppose, the other shoe from the royal commission which was a recommendation that the Canada pension plan not be increased or, indeed, that public sector plans not be increased. You say on page six you recognize and concur all citizens should be covered by some form of compulsory pension in addition to CPP. Are you deliberately ruling out an expansion of the CPP?

Mr. Hughes: No. We are recognizing, however, the political realities of the structure of this country. It is probably more important to get a form of compulsory pension for all citizens of Ontario and that probably the fastest and most efficacious way of achieving that is for a supplementary pension plan to be established in Ontario, supplementary, and in our jargon that we were using earlier, stacked to, rather than integrated to the Canada pension plan. In the same way we are saying, in a sense, that if such a plan were established, even if it were PURS, the teachers' superannuation fund would then be stacked to that.

Mr. McClellan: I understand. My own political sense, I suppose, screwy as it is, remains optimistic.

Mr. Hughes: I assume I am not supposed to comment on that remark, Mr. Chairman.

Mr. Chairman: I think it is generally accepted.

Mr. McClellan: I knew that would bring out the neanderthals.

Mr. Brandt: (inaudible) support he has ever got.

Mr. McClellan: I remain optimistic that reason will prevail and that we will see--I do not know when--an expansion in public sector plans, either Canada pension plan or some combination of the Canada pension plan and old age security. It would be helpful, certainly for me and my colleague, Mr. Mackenzie, who shares that perspective, to hear in some detail from you what your experience was when the original Canada pension plan was introduced in 1966.

You have expressed the concern about the forceable integration. Perhaps you could take just a few minutes to tell us what your plan looked like prior to the introduction of Canada pension plan, then specifically how the Canada pension plan impacted on your plan in 1966 and, thirdly, whether what I assume to be some disadvantages at that time have subsequently been overcome or whether you still feel that the disadvantages suffered at that time remain.

Mr. Hughes: As you may have guessed, I was in England at the time in 1966, so I will pass to Mr. Richardson who is a genuine Canadian from way back to comment on that.

Mr. Richardson: If one were around with teachers in 1965-66, I cannot think of anything they were more exercised about than the forced integration with the Canada pension plan. What it did was, in their opinion and to some degree it was true, to reduce the potential of benefits in their own plan because it was integrated. A certain portion of the payment into the fund had to go to the Canada pension plan and so on.

They were quite prepared at that time, although no formal vote of some 90,000 teachers at that time was taken, probably to pay an additional amount to be involved in the Canada pension plan through stacking. In spite of the pleas and what have you with governments, that was not allowed.

If you are looking at any benefit that might have accrued, the only one that really came out of it of significance was that the calculation of pensions was based on the best seven years rather than the last 10 years. That was a tradeoff that the government made to have the plan integrated.

There are many teachers still who feel that the federation, if you like, the Ontario Teachers' Federation in particular, sold

the teachers down the river by allowing integration of the Canada pension plan. If you want to know how they felt, that is how they felt. There is still a strong feeling and it would go to any other plan that may be imposed. That is why Mr. Hughes has made the strong plea about the stacked rather than the integrated.

Mr. McClellan: I assume the corollary of that, and I think you alluded to it, is if there was either an additional plan at the provincial level or an expansion of the Canada pension plan and it was stacked, you are saying your membership would be prepared to pay the additional cost.

Mr. Richardson: I said at the time in 1966 they were prepared to pay--we have not tested our membership so any comment I would make would be not a valid statement one way or another.

Mr. Hughes: I would simply add one thing, that our members feel strongly about pensions and I think whatever was proposed would have to be very specific in terms of its implications upon the teachers' superannuation fund itself. Then we could test the feelings of the teachers.

Mr. Richardson: And certainly benefits that would accrue from that additional plan.

Mr. Cousens: Mr. Chairman, a number of my questions have been answered and very adequately. One subject that is not referenced in your presentation but is an interest of mine is the concern that many of us have about the plight of retired teachers who are not receiving anything close to the support they had anticipated when they did retire before inflation took over. I wondered, is the federation doing anything to help those people and, if so, what are some of the things you have done and also what are some of the suggestions you have to help those who are already in need who are retired?

Mr. Hughes: I would make a general comment first. The most practical help that we ever gave those individuals was our support of the concept of the adjustment fund, the additional inflation fund. I think it is fair to say that a very large number of teachers who are currently in the profession and may not retire for 20 or 25 years are now contributing to that fund and the basic benefits are going to be met by those who were originally conceived as retiring on a very small and limited pension.

As I said before, I think an expansion of that concept might well be a method of protecting people who retire earlier and live longer against the ravages of a time when inflation is going up at a much faster rate than predicted.

As far as what this federation itself has done for our members, essentially what we do is we try to give them very specific advice as to retirement patterns and retirement investment. We try to advise them as to appropriate ways of supplementing whatever pension is available through the superannuation fund. We are trying to set up structures by which teachers can take advantage of their strengths as investors from the point of view of the marketplace and get good returns which

will be of benefit to them.

We are trying to convince them it is not necessarily the perfect way to establish a good nest egg on retirement simply to put their money into a registered retirement savings plan, add it to your house and rely upon society somehow to make sure that is the perfect long-term answer. The most practical way I think that we are helping is we try to set up advisory packages for teachers long before they retire.

3:10 p.m.

The practical problem that we are finding--and I think Mr. Scott, who was in here this morning, may have touched upon it--is that unfortunately many teachers will only recognize the need for retirement perhaps three or four years before they do retire and any planning and investment which they involve themselves in are very late in their investment career. So what we are trying to establish as a professional group for our members is to advise them that 20 years before retirement they should be setting up adequate investment packages and, of course, as you have heard from Mr. Scott, there are also other suggestions in terms of where you could retire, how you could retire, benefits and so on.

Also I would like to include--and I am sure the school boards won't like this--we are very carefully trying to negotiate for our members, through collective agreements, methods by which their retirement benefits would be enhanced.

Mr. Chairman: So you are educating them in many ways.

Mr. Richardson: Yes. I might just comment a little further on that question. I might mention another group that was established, I guess with the original impetus from groups like OSSTF and the Ontario Teachers Federation, is a group called the Superannuated Teachers of Ontario which is trying to meet the needs of superannuated teachers through various things, not very much financial but in other ways.

If I can go back and indicate why we have to look at these additional things, when we were looking--this goes back to the 1950s--at inflation and the needs of teachers who had been superannuated, particularly those that retired in the 1950s and early 1960s and inflation was growing, there was no method of keeping up with that inflation and particularly when you got into the dependant area it became also criminal as to the conditions under which they lived. One of our frustrations has been that we started, in about 1954 or 1955, to bring in some kind of adjustment fund to index pensions. It wasn't until 1975 that we were able to convince government that this was a valid thing.

It is that kind of frustration that leads us to have to set up other programs to accommodate it. I guess one of the frustrations is how slowly we move in the pension area to accommodate changing economic conditions.

Mr. Cousens: To put it on the record, I had a French teacher from high school, a Miss O'Shaughnessy, who retired in 1959

and who is now in her eighties and is in very tough times; at least she was a couple of years ago when I last heard about her. I guess she is the kind of a person who has made a significant contribution to everybody and has been probably one of the reasons why we had in our interim report the desire of government to do something more to help those in need. I challenge you to look further at trying to help some of those who are already retired. We, as a committee, have addressed it in some ways but there are people already, through your organization, who have done their service but should continue to be looked on as those that are still in need of help.

Mr. Mackenzie: It was addressed, but we haven't done it yet.

Mr. Cousens: I know. I am glad we went that far anyway.

Mr. Hughes: Mr. Chairman, Mr. Ouimet on my right has spent much of his time in OSSTF trying to answer this concern. Bob, do you want to add something?

Mr. Ouimet: As in your case, I know a number of retired teachers across the province who are in that situation. As a matter of fact, in the last month I had an 81-year-old teacher and his wife of 77, both of whom had retired on a B pension with 37 years of teaching and who are financially in difficulty. We have a number of these across the province and certainly we are interested in bettering their position, but I do think that we should be looking at the superannuation fund.

Mr. Cousens: I just say you should be doing something for them too, if you can; just don't leave them out there dangling. I know we are trying where we can.

Mr. Hughes: To give you specifics--

Mr. McClellan: The government refuses to increase the Gains single rate, for goodness sake. Don't lecture people.

Mr. Hughes: To give a specific example, Mr. Chairman, in our budget annually, whenever one of our members retires, the organization pays their membership for the first year in this organization called the Superannuated Teachers of Ontario, which has nothing to do with OSSTF. I do not say that is an answer. I am just saying we are very well aware of the plight of some of the retired members.

Mr. Richardson: If I could just follow that up, one of the things that the superannuated teachers do is identify these people who might be having difficulty and make it a personal obligation to deal with that and look for resources. Sometimes it is not resources, it is just communication and somebody to relate to. That is one of their prime obligations.

Mr. Cousens: It is of great concern when I see people in these straits.

Mr. Chairman: Mr. McClellan's remarks may or may not be relevant, but right now we are anxious to hear Mr. Haggerty.

Mr. Haggerty: Thank you, Mr. Chairman. I think Mr. McClellan was asking some of the questions I wanted to ask, relating to the integration of the Canada pension and the teachers' superannuation fund. You did mention some of the drawbacks, but the question I want to direct to you is on page five. It says, "It is the position of the Ontario Secondary School Teachers Federation that the teachers' superannuation fund shall be exempted from the PURS system."

What are the drawbacks in going this route, adding another benefit plan to your existing one? This would permit stacking, would it not? What are the drawbacks under that conclusion there?

Mr. Hughes: Sorry, what that really means is if in fact a provincial plan, specifically a PURS scheme, were implemented, the teachers' superannuation fund would be additional to, rather than part of. I guess that is the difference between stacking and integration, that they should be stacked rather than integrated.

With reference to the superannuation fund, I think simply because its nature, its scope, its length of time, the characteristics of its investment--I am sure we are all aware of the size of its investment--the commitment on the part of government to the fund is so enormous and so long established, that I can forsee enormous problems in trying to integrate that into a provincial plan.

I am assuming, perhaps incorrectly but I think not, any provincial plan would be giving returns on retirement that would be much lower to the individual than would be true of the teachers' superannuation fund. I suspect the pattern of investment would be different. The rules of investment, as we know from the royal commission report, are totally different. I suspect the guarantees would be different. They are almost alien to each other in the concepts and rules that embody them. I think if there were any attempt made to fully integrate them, certainly the teachers would have very major concerns, probably more so than is true over the issue of the Canada pension plan. We would feel we were losing benefits. I suspect people might even say we would feel we were subsidizing other sectors of the economy or something like that.

Mr. Haggerty: But your association is adamant in its stand to be exempted under the PURS program.

Mr. Hughes: It is certainly adamant with reference to the PURS scheme because we don't only object to the integration, we object to the very concept of the PURS scheme itself.

Mr. Haggerty: I thought perhaps I could flush out more drawbacks in the PURS program. Is there not any other issue there that is of concern to your association that the committee should be aware of?

Mr. Richardson: I will try and add a little bit here. Even though we have had difficulty with what might be termed negotiations by some, but by some it is not negotiations, with government on changes in the teachers' superannuation fund, if you

went into an integrated scheme such as PURS, where you are only one small group in a larger umbrella, there is no question that the specific needs of your interest group would not be addressed to the same degree as in a fund such as the teachers' superannuation fund, which was established for the particular needs and differences and what not of groups such as teachers.

3:20 p.m.

That may be partially emotional, but I don't think so. I think it is very practical difficulty we have when we look at integrating with a universal plan, particularly when you have a plan that has been established with certain, almost guaranteed benefits at the end. By integrating, those benefits could change radically almost overnight. I think teachers generally are a relatively conservative group--

An hon. member: That is a small "c" is it?

Mr. Gillies: It varies from election to election.

Mr. Richardson: --and as such, they put a great deal of faith in something like the teachers' superannuation fund that they are going to be looked after as best they could without having to be involved in the financial world, if you like, to look after that. They are teachers. Generally, I suppose they are academics, although not in every case, but they rely heavily on that.

Mr. Van Horne: Just following on Mr. Haggerty's question and going to the point raised on page three of the presentation, they would accept a form of stacking but they certainly do not want any part of PURS: Have you investigated other forms and can you share with us, if you have, what those forms might be?

Mr. Hughes: Not really. I will be honest with you, one of the difficulties we had with the royal commission report was the nature of the PURS scheme. Our objection to that was so severe. Our basic premise is that we did not want anything to do with that. As I think we said in reference to an earlier question, if there was a universal Ontario plan which was structured perhaps more or less along the lines of the Canada pension plan, we could see debate occurring on the relationship of the teachers' superannuation fund to that, but again on the premise of stacking rather than integration. It is not the concept of being involved in an Ontario plan that we object to, it is really an Ontario plan premised on the PURS concept and an Ontario plan into which our fund would be integrated.

Mr. Van Horne: We have been told a fair number of times in the last week that we cannot forget that the Canada pension plan is that, a pension plan for Canada, and if we are going to look at anything that might be just Ontario, we would not be doing ourselves, our province or our country a service.

You must talk with other teachers across Canada. I am wondering if you have talked with them with that sort of rationale. I realize the teachers' superannuation fund in Ontario differs from funds in other provinces, but I understand there is discussion from

time to time. Have you, as teachers in Canada, talked about ways of changing, altering or suggesting changes or alterations for retirement funds that could fit in with CPP?

Mr. Richardson: I think it would be fair to say that there have been no serious discussions in this area. You have to recognize what happens in teachers' pension plans across Canada where you go from one extreme in Newfoundland, where there was a plan which was paid for almost totally out of the consolidated revenue, there is no funding, to Saskatchewan, where there is direct negotiations as part of a total package, which is true in Quebec to a degree, to New Brunswick's found pension plan--in other words, when they negotiate their salaries they negotiate pensions at the same time.

Up to this time at least there has been no real interest in any prolonged debate on any kind of universality nationally on extending that. We have had debate on the Canada pension plan per se and where teachers want to sit in relation to that plan, but as far as extending what is there, to be honest, there has not been any prolonged debate.

Mr. Van Horne: Two short questions. Are you happy with the actuarial evaluation process that exists now for the superannuation fund?

Mr. Ouimet: We are happy and we are not happy. I think things appear to be improving. The fact that periodical evaluations are being made between the compulsory three-year evaluations I think is good. We appear to be having--

Mr. Van Horne: Are those in-house evaluations or are they done externally?

Mr. Hughes: Kind of internal.

Mr. Ouimet: Semi-internal every year.

Mr. Hughes: There is an external checkup.

Mr. Ouimet: As I said, things are improving, but we are still not totally happy with the process. The Teachers' Superannuation Commission now has, of course, a committee that keeps in touch with and discusses with the actuaries the reason behind the particular methods being used. That seems to be important and it seems to be producing results.

Mr. Van Horne: These improvements would keep the fund a little more stable than it appeared to be 1977 when that rather large actuarial deficit was realized. Is that correct?

Mr. Hughes: I think so. We have to be careful in distinguishing between actuarial projections and the factors that might be leading to conceived actuarial deficits. As I said at the beginning, we had some serious reservations, which we still have, regarding the interest rate the fund obtains in terms of government investments. I think we could adequately demonstrate that, if in the investments have been made over a long period of time at

something over what was available, that is, approximating to market rate, the actuarial analyses would be demonstrating that the fund would be in a more than excellent position at this time.

I don't mean to be political here, but frankly the concerns tend to develop over the actuarial analyses when the fund is reported to be in a deficit position and arguments start to erupt as to why that deficit has occurred.

Mr. Van Horne: You can't see PURS as being an improvement on the situation you now have?

Mr. Hughes: I don't want to be emotional, but can I just make one point that may help that I stated at the very beginning? From the point of view of teachers anyway, a pension plan is something that is created so that they are secure in the knowledge of a genuine pension. In my opinion, the basic concept behind PURS is floored as a pension mechanism, because there is so much individuality allowed that it will create variations in return of pension, thereby creating uncertainty in prospective retirees and, therefore, in my opinion, will stop being an adequate pension plan. It may be an excellent method increasing flexibility of investment in the economy. It may bring great joy to Bay Street. I am not at all sure it is valid as a method of defining what a pension plan should be.

Mr. Van Horne: One final short question. On page six you use the word "definite." Could you elaborate on that briefly?

Mr. Hughes: I'm sorry, sir?

Mr. Van Horne: Page six in the second paragraph, second last line, "possibly for a term definite."

Mr. Richardson: This was in relation to the Jackson report, which indicated that one way to accommodate early retirement and assist in the teaching composition was to bring in the 85 factor. That report also suggested that by bringing it in, it might be a term definite, and they use the year 1986 as the year the 85 factor would stay in. Then it might revert back to the 90 factor if the conditions were such that it would accommodate it.

3:30 p.m.

Mr. Ouimet: I think our feeling is also that, in looking at Dr. Jackson's recommendations, trying out the 85 factor for a five-year period and then having a look at the cash flow that has produced, the message we get from across the province, for example, is that if teachers were offered this 85 factor for a period of five years and it was found at the end of five years that changes in funding would have to be made to continue, we think teachers would be willing to fund that kind of thing, but only if they were shown in a very practical sense that the changes were needed.

Mr. Chairman: Any further questions? Thank you, gentlemen, for taking time not only to prepare an excellent brief, but to deliver it and discuss with us your concerns. You may have learned something as well from coming here today. I know you had

some concern about PURS. We haven't, as a committee, made a decision yet. I think you have pointed out that all universal programs may not be universally effective in terms of adjusting the particular problems of any special interest group or profession. We will certainly take into consideration the message you brought forward today, so thank you very much.

Mr. Hughes: Thank you, Mr. Chairman. As I said, we appreciate the courtesy of the committee in giving us a hearing. As I said earlier, if we can be of specific assistance to this committee in its deliberations, we would be very glad to help if you would let us know.

Mr. Chairman: We have with us as well this afternoon Ms. Louise Dulude who, I understand, has made a trek from snowbound Ottawa by train to be with us today. Is that correct?

Ms. Dulude: Yes, it was quite an expedition.

Mr. Chairman: We are delighted to have you with us and we want to thank you in advance for appearing. Now you have been good enough to provide us with two documents, which are entitled exhibits 123 and 142, and the members have those particular submissions. Now we are in your hands.

Ms. Dulude: I guess I had better establish my credentials for a start. I am a lawyer by training and I have for the last five years specialed in preparing reports on the economic situation of women. I will also be teaching law at the University of Ottawa starting next month. My areas of specialty are income security, taxation and pensions, all in relation to women. I was asked to prepare a short summary to give you verbally the views expressed in more detail in the report you have and in the discussion paper of the Advisory Council on the Status of Women. So, Mr. Chairman, if it suits you, I will start by making this presentation.

At the risk of repeating what the committee has been told before, I think it is important to establish again and again that pensions is mainly a women's issue in Canada and probably everywhere else as well. It is not only in relation to poverty that pensions is a women's issue, although that is the only area in which it is well-known that pensions is a women's issue. Now in this area of poverty I will say very little, except that I agree with your own preliminary recommendation that the GIS for single people be increased, and Gains in the meantime. I am, though, disappointed that you did not mention in the new report the importance of indexing Gains to the cost of living. In fact, I find that inconsistent with you having mentioned that you want the CPP or OAS and GIS to continue to be indexed. This is all I am going to say about women and poverty as such and old age.

The other problems of pensions concern women first as well. For example, the problem of replacement of previous earnings to maintain the standard of living that people had before retirement is almost always mentioned as a man's problem, and that is not the case. Inasmuch as women are in the labour force all their lives, they have exactly the same replacement of earnings problem as men. Inasmuch as they are not in the labour force all their lives, they

have an even worse replacement of standard of living problems than men because, for example, if you look at the average replacement rate on previous family earnings that widows are getting now, you see it is 30 per cent, which is the worst replacement rate you will find for any group. Inasmuch as the problem of maintaining the previous standard of living is a problem for all the elderly, it is mainly a problem for women, because the elderly people in the year 2000 will be women in a proportion of 60 per cent. So this is another demonstration that, if you look at it from these points of view as well, pensions is mainly a women's problem.

Another area that is seldom directly connected with women is that of the erosion in value of pension benefits. Now, of course, once you think about it, you realize this is much worse for women because they live longer, and to put it very graphically, if you look at a population of middle-aged people now, you see that of the women, more than two thirds will live at least until the age of 75 and more than half will live longer than the age of 80. Among men of the same age, only about half will reach the age of 75 and less than a third will reach the age of 80. So when we are talking about indexation of pension benefits to the cost of living, we are overwhelmingly talking about women's problems.

Such being the case, that pension problems are mainly women's problems, one would be reasonably justified in expecting pension studies to discuss in large measure the problems of women and pensions, but, as you well know, this is not the case at all. This is unjustified. I am saying as a woman, as a woman who has talked to hundreds of women about the subject at this point, and as a representative of women, that this is unacceptable. As an Ontarian, I think the fact that the royal commission report had so little to say about women is outrageous, and should not be accepted. In fact, if you look at the Ontario royal commission report and the Lazar report, at the Cofirentes report in Quebec, at the Senate report, you find there are two assumptions generally made about women. One is that women will continue to be poor in old age as far as all these people writing these reports can see in the future. So they are talking of women mainly in the context of benefits for the poor elderly.

The other thing that is assumed is that if you give men good pensions in our society they are going to trickle down to their wives. This is taken for granted. It is not even mentioned, it is so much taken for granted by everybody.

<u>3:40 p.m.</u>

There are two problems with that. First, it is unfair. It is unfair because you find women who work in the home who do the same work, who are homemakers, and who end up with very different pensions. You will also find that a problem with that which is increasing is that it is totally unreliable, because with the divorce rates we have now, and especially with the divorce rates we are going to have in the future--and for pensions we are planning, by definition, for the future--we cannot count on pensions for men trickling down to their wives. Already divorces are running one for every three marriages, and the projections for the future are one

for every two. So forget the trickle-down theory; it is not worth a damn for pensions any more.

Because of all this, if we want to have a valid analysis and valid conclusions about pensions for the majority of the people--and let's remember once more, the vast majority of elderly people are going to be women--it is important that we re-evaluate pensions for fairness towards women and that we try to establish a pension system that is going to give pensions to women in their own rights, rather than tie them to a man. For it may be unfortunate, but the family unit is not a very stable unit any more.

In thinking about these issues, I have delineated three broad areas of things we must do. One is that we must maximize the pensions of women who have been in the labour force all their lives. Second is that we must find a way to give good personal pensions to women who spend most of their lives working in the home. Third, fairness requires that there be a mechanism of equalization of benefits between husbands and wives in recognition that marriage, as it is, is a partnership.

Let us deal first with pensions for women who are in the labour force. This is for women who spend most of their lives in the labour force, so the problems are the same as for men. Having looked at the two broad options that are presented, which are expansion of the Canada pension plan or mandatory private pensions of some kind, I think it becomes quite clear that for women as well as for men, expanding the Canada pension plan is better. In fact, it is a lot clearer in the case of women why expanding the Canada pension plan is better.

The main arguments why the Canada pension plan is better for men are immediate vesting, full portability, universal coverage, full indexation, predictability of benefits, survivors' benefits, the fact that the effective reforms would be felt much faster than in mandatory private pensions. Some of these would not be curable, as you know, under mandatory private pensions. You still would not have full indexation. You still would not have benefits that would be increased before 30 or 40 years.

There is one reason why some of these elements are more important for women. Portability is more important for women because of the higher turnover. As I mentioned already, indexation is much more important for women.

The following are reasons why mandatory private pensions are so much inferior for women than for men. The first is the subsidization of low-income workers that is contained in the Canada pension plan. The reason this is important is that even the most optimistic projections about the participation of women in the labour force tell us that even in 100 years, women in the labour force will still be getting salaries that are much lower than men. So subsidization of low-income workers is really subsidization of women in the Canada pension plan or in any pension plan. And It is important for women to be able to participate in plans that have such features as the basic exemption and the 15 per cent period of dropout.

Another reason why the Canada pension plan expansion is better for women is that it is much easier to have equalization of benefits between the spouses within the Canada pension plan than with private plans. This is very clearly evidenced by what has happened in the last few years. Now we have equalization of benefits on divorce in the Canada pension plan on a voluntary basis, but it has been adopted.

If we look at private pensions and the progress that has been accomplished as far as equalizing credits on divorce, we see that only Saskatchewan and BC have that in their family law. Manitoba had it in its law, but its appeal court invalidated that about six months ago. In Ontario, it is far from done, and even the Ontario royal commission was recommending that private pension credits not be split on divorce. So, as far as women are concerned, it is much better to have it done once, in one national plan, than this patchwork which means that your pension would very much depend on what province you live in.

The last and most important reason, by far, why women would be better off under an expanded Canada pension plan, is the dropout period for child-rearing years, which you certainly would not find under any mandatory private plan, and the possibility of integration of homemakers directly in an expanded Canada pension plan. On the coverage of homemakers, I would like to reformulate the question right away. The question is not whether homemakers should have pensions or not. They already do; this is what survivors' benefits are. The question is whether another system of pensions for homemakers would be better and fairer than survivors' benefits.

If we look at survivors' benefits today, we find that they are just about the worst type of homemaker's pension we could have. First, they rise with the husband's income. It does not matter what work the woman has done, or how deserving she was. Who pays for survivors' benefits? Not the husband, or if he does, it is very little. Since everybody pays the same CPP contribution, the people who are proportionally paying more than their share to subsidize survivors' benefits, if you look at the people in the labour force, are the married women in the labour force. It is married women in the labour force who are subsidizing survivors' benefits for homemakers at present.

Also, of course, survivors' benefits do not give benefits to women at the age of 65, nor do they provide them with disability coverage before the age of 65. So they are not adequate either.

Instead of these very inadequate homemaker benefits that we have, I have made proposals for a better system, which I do not necessarily think is the best possible system, but I am the first person, it seems, who has ever sat down to try to devise one because nobody else has cared to, even though there have been many millions of dollars put into studies by governments for pension reform.

When you look at homemakers, the first distinction to make in relation to pensions is between women who are spending most of their lives in the labour force, leaving it only for a short while

when they have children and then going back, and the other group, which is women who are mainly at home. They may spend a little time in the labour force before they marry, but they spend most of their lives at home.

Here, let me correct right away a misconception that often arises. People often say, "Well, the women who are staying at home must be only the well-off ones." But there is no evidence of that. I have looked at figures, and there is no evidence that women who stay in the home on a full-time basis at this time are mainly upper-income women. It is very hard for a woman of any social class or husband's income class to find a job in her fifties and early sixties right now, and these are the women we are mainly talking about.

3:50 p.m.

Of the women who are mainly in the labour force most of their lives and who only stop for a few years to take care of their young children, there is a broad consensus that the dropout period in the Canada pension plan will take care of their needs. It is important to remember that if you leave the Canada pension plan as it is, and you have another layer of mandatory private pension, then the dropout period is only going to have half as much value for women. It is all very well for the royal commission of Ontario to say they are in favour of the dropout period, but by saying they want a mandatory private pension, they have just reduced its value by half.

The dropout period is the one thing where there is a broad consensus. The second question is just an expansion of that, again for women who are mainly in the labour force all their lives. It is to expand this dropout period to cover women who are taking care of disabled relatives, who are so disabled that they would give the person who is in charge of them a right to exemption under the Income Tax Act for having a disabled relative.

This should also be included in the dropout feature for the reason that taking care of children under the age seven, or of very disabled relatives, are tasks that are beneficial to all of society. If these women didn't do it, we would have to pay for it to be done in institutions. So it is unfair to penalize them by not allowing them pension coverage during that time.

For women who spend most of their time in the home, and again we must make a distinction between those who have young children or are taking care of disabled relatives, and those whose children have left home or who do not have disabled relatives. On the one hand, those with children or disabled relatives are in essence doing the same thing as the ones we want to give a dropout period to. So it is unfair to subsidize the benefits of women who are dropping out for a while to take care of young children, but to give no benefit to women who are taking care of young children but do not go back into the labour force.

In that case, since they don't have a salary on which to base the benefits, I think we have no other way but to impute a value and to give them a level of pension credits based on that imputed value.

I am proposing a level which is equivalent to half the average wage. The reason I am proposing that is that it is approximately equal to the minimum wage, or slightly above it, and corresponds to homemaking services. Even more important, it means that if a woman moved from work in the home to work in the labour force, her pension would not be reduced. It would, of course, be unacceptable that if a woman went out into the labour force, her pension should diminish. This is why I am proposing this level.

For women who are at home taking care of young children, these pension credits should be free because they are the equivalent of the dropout period that women who drop out of the labour force are getting. Like the value of that dropout period, this should be subsidized by other contributors.

In the case of women whose children have left home--we are now talking about the category of women generally between 45 and 65, who are at home full time--I suggest that we impute the same level, half the average wage. But in their case, since they are not working for all of society but they are working for their family and more specifically in most cases for their husband, I suggest that it be the husband who is asked to pay the contributions. This would move the burden of pensions for homemakers from the unmarried and married women in the labour force who are now subsidizing survivors' benefits and put it where it belongs, which is on husbands who are benefitting from the labour of the women who are at home, from the free services these women are giving them.

I am sure several of you must have wives in the home and if you think about it, you will find it fair that it be you who are paying these women for these benefits.

In terms of method, I have suggested that it could be made mandatory. We wish we could force husbands to pay this. Another method which might be better would be to say that whenever someone claims the married exemption under the Income Tax Act for a dependent spouse, or the equivalent married exemption, which could be for a daughter or a mother who is keeping house, to be able to claim that deduction you have to pay the Canada pension plan contribution for that person. In the case of husbands who are under a level of income where it would make it worthwhile for them, I suggest there be a credit to help them pay this contribution for their wives.

The first item you will remember was improving benefits for women in the labour force and the second was benefits for homemakers. The third is equalization of pensions between the spouses and the first one is at the time of divorce. Maybe I should say first that there were proposals, and this is what the Senate committee has recommended, that there be a continual splitting of benefits; that as soon as the benefits are acquired under the Canada pension plan, they be split every year between the spouses.

I do not think this is a good idea because it would reduce the value of the husband's disability pension in the case of one-earner families. Also, if the wife were 10 years younger, for example, when the husband reached the age of 65, he would only get

half a pension, again in the case of a one-earner family. So I do not think that the continuous splitting of Canada pension plan credits between the spouses is a good idea. That means we have to consider special situations like divorce, ongoing marriage and death and what to do in each case.

In the case of divorce, we have in the Canada pension plan the option of the wife or husband asking for the splitting of credits within three years after the divorce. The problem is that it is not working at all. The last figures show that about two per cent of spouses are requesting this splitting.

Part of the reason seems to be that there is lack of information. Even more important is the fact that under the age of 35 to 40, people do not think much of pensions. They are not aware of the importance of pensions and are quite willing to sell pensions in exchange for a cash benefit.

Considering particularly in this case that we are dealing with a woman who is divorcing and who probably is in financial difficulties, I think it is unrealistic to expect that she will say, "No, I will not take this small amount of cash in exchange for renouncing the splitting of Canada pension plan credits." It is inevitable that she will give up that right. In the same way that we force people in the labour force to have pensions by making participation in the Canada pension plan mandatory, this splitting on divorce should be mandatory, that it be impossible to renounce the splitting, that it be automatic and mandatory.

4 p.m.

In the case of private pensions, I made representations two years ago when the Family Law Reform Act was introduced here. Unfortunately, we women's groups did not know very much about pensions at the time, so at that time we did not stress the importance, as much as we should have, of including pension credits in the family assets, to be split between the spouses on divorce.

At this point, there probably would be hundreds of women willing to come and say that. Unfortunately, we did not do it at that time as much as we could have. So we will not blame you parliamentarians for not having done it, because we did not really stress it very much at the time. But it should be done now.

The same with the splitting of RRSPs. This should also be included in the assets to be split on divorce, the same way as it is in British Columbia, Saskatchewan and in the law in Manitoba.

In the case of an ongoing marriage that continues well past retirement, the easiest way to equalize pension benefits would be when the youngest spouse reaches the age of 65. At that point you could have an equalization of benefits for the years the spouses were married. So it is not a half and half business, unless they were married all their working lives, but this would occur when the youngest reaches the age of 65.

At the time of death, my proposals entail abolishing widows' benefits. If there are no widows' benefits, we have to look at the

categories of widows to see which ones could do without widows' benefits or would need some other form of help. If we had homemakers' benefits and if we had equalization of benefits--I am always talking about the Canada pension plan--when the youngest reaches the age of 65, we would not need survivors' benefits for those whose spouse dies after the age of 65. There would not be a need; their pensions would be high enough without it. You could abolish these dependents' benefits, so we would get out of all the difficulties of determining which of the man's four wives is going to get which part of the pension.

We have to look at other situations such as that of the wife aged 50 to 65 who is unable to work. That is a very difficult question. I must say I have not got a solution to that.

You may consider giving some kind of unemployment pension to these women on the justification that they were working for their husbands and they became unemployed and so maybe they should get this unemployment pension because they do not have a job. Another possibility would be an income-tested benefit.

The one thing we know for sure is that the present system of giving survivors' pensions to men and women, full survivors' pensions to men and women, starting at the age of 45, whatever their earning capacity, is a waste of money. We have to find something better than that. It is throwing money down the drain.

In the case of wives who are younger than 50 who have young children, there have been very good proposals by the Cofirentes group in Quebec. They have proposed that there be much higher pensions given in that case for a much shorter period. So that when the children are all at school, the benefits would disappear.

In fact, the effect of that would be to give benefits for children and for a child minder. They would not be widows' benefits at all; they would be benefits for children and for having someone take care of them. That would solve the problem of when it is someone other than the mother who is taking care of the children. Now if it is somebody else it is still the mother who gets the benefits, so you are not reaching the person you want to reach.

Briefly I will go through a few suggested changes in the private pension area. In the area of vesting, I think your proposal of five years is still a long time. If you look at the economic study--I cannot remember what study it was where I read that very few women in the labour force stay in the same job as long as five years--a five-year period as far as women are concerned would cover a very small part of the female labour force.

In terms of indexation, I favour the inflationary earnings and that sort of indexing, deferred benefits and benefits in pay. In terms of survivor benefits, I am in favour of your proposal for mandatory joint and survivor options with 60 per cent at least. I did not see, and I would ask that you consider, the possibility of requiring that before spouses give up the right to this pension they have to get independent advice. They would get a certificate, the same way that used to be required, or may still be required in the western provinces, before a woman can renounce her dower rights. In many cases, they have to prove that she received independent legal advice.

The last thing is that I favour the use of unisex tables in all cases, if this is not done at the present time, as much for money purchase plans as for any kind of annuities, and for registered retirement savings plan annuities as well.

That is the gist of it, and I will be glad to answer your questions.

Mr. Chairman: May I just ask you, to start things off, in the suggested reforms to the Canada pension plan, whether they would include an overall enrichment of the plan in addition to the provisions that you have made for, for example, the homemaker?

Ms. Dulude: Yes. I am sorry if this was not clear.

Mr. Chairman: If so, do you have any figures in terms of cost of that and what it might mean in terms of premium increases?

Ms. Dulude: No, I do not. I am sorry, the Advisory Council on the Status of Women does not have the financial capacity to have this done. Probably it would be similar to the labour congress calculation, except for the fact that there would be a great saving from the abolition of the survivor benefits. This is a very expensive benefit at this time.

I have asked that maybe the status of women department in Ottawa ask the department of insurance to try to calculate how much such proposals would cost. I would be pleased to provide them if I had them.

Mr. Chairman: The other point, and I think you have made it, is that the drop-out provisions would really be a beginning for complete coverage of the homemaker, or eventually to expand that for coverage of the homemaker who is really making a contribution on an even longer basis to her family.

Ms. Dulude: It would be what someone has called a drop-in period for those who are outside the labour force all their lives, and it would be the drop-out period for those who are in the labour force all their lives but drop out for a few years when they have young children, the child-rearing drop-out period that would be integrated in. For women who are outside, for the years they are taking care of young children, you would impute this salary equal to half the average wage and give them free coverage, which would be the drop-in for that time they are taking care of young children. When they are not taking care of young children, you would also include them on the basis of an included income backed with full contributions paid by the husband.

4:10 p.m.

Mr. Chairman: I am assuming you would agree that the benefit of a woman looking after her family, especially children of tender years, is indeed a great contribution. If that is so and worth while, then I suppose there would be certain savings to the public in that regard as well. Do you try to calculate what the full savings may be? I am thinking of maybe day care or certain services, family services, that would at one time be performed by the wife which may be now institutionalized and being paid in some part, say, from the public purse?

Ms. Dulude: There would be no saving from that because I don't think any women who are in the labour force would drop out for that reason, because they wouldn't get any salary out of it. The salary would be a hypothetical one. We would just take that figure and give pension credits on the basis of that figure, but we wouldn't pay her a salary.

Mr. Chairman: I understand that but you don't think there would be any incentive--

Ms. Dulude: No. It wouldn't be any incentive to drop out of the labour force. In relation to the other ones that don't have young children, it was mentioned by some that if the husband was asked to pay the contribution there might be an incentive, the husband might encourage his wife to go into the labour force and she would pay her own pension contribution, because at the present time there are husbands who prevent their wives from going into the labour force because they are going to lose the married exemption.

It is one of the elements that enter into consideration in a woman going into the labour force, but let's take the case of the woman who has young children. The choice would be between staying home and being covered and getting pension credits equal to half the average wage or being in the labour force and having the same pension coverage or a higher one. So what would be the incentive? She would get the same or more pension coverage if she were in the labour force, plus in the labour force she would get paid.

Mr. Chairman: I understand that.

Ms. Dulude: There would be really no incentive.

Mr. Chairman: So you don't think it would affect the number of women who would stay at home as opposed to those who are now going into the work force?

Ms. Dulude: No. Already though there are very few women in the labour force when there are young children. I am thinking now of less than seven. The participation rate is very low when there are young children. The full-time participation rate is somewhere around 20 per cent. I didn't mention, because it is already complicated enough, that another provision I make is for women who are working part-time while taking care of young children. In that case, I think she should continue to contribute on the basis of her own earnings but be given the pension credit equivalent to the difference between her earnings and half of the average wage. So a woman who is working part-time and a woman who is working full-time in the home would get the same pension credits.

Mr. Chairman: You, by the way, haven't been chatting with Madame Monique Bégin, have you?

Ms. Dulude: Yes.

Mr. Chairman: And how does she receive your proposals?

Ms. Dulude: She is noncommittal. I have not succeeded in getting any opinion out of her on the subject.

Mr. Gillies: Don't knock it. At least you got to talk to her.

Mr. Chairman: Mr. Cureatz, you have a question?

Mr. Cureatz: Thank you, Mr. Chairman. It does not have to do with the CPP, but a more practical problem which I was very interested in. You have come up with something that I think the committee has not grappled with before and something we could be taking a look at. That is your comment about the Family Law Reform Act and the possible inadequacies in that area regarding separations and divorces between couples. Have you made any specific representations or letter-writings in this case to the Attorney General, indicating what you would or would not like to see reformed under the Family Law Reform Act?

Ms. Dulude: No, I have not personally. The change to be made is a very easy one. It is already, as I mentioned, in the law of British Columbia and of Manitoba.

Mr. Cureatz: Mainly to ensure that it is part of the negotiated settlement, say, as is the matrimonial home.

Ms. Dulude: Yes. It is part of the same group of assets that are shared almost automatically. Now they are not part of that group of assets. They are part of another group of assets where the wife must prove that she helped to acquire them, which is a very difficult proposition because the onus of proof is on her.

Mr. Cureatz: It places the larger onus on her.

Ms. Dulude: Yes. If she wasn't in the labour force herself, how is she going to prove that? It is very difficult. It assumes that the pension plan is not part of things that spouses accumulate together. In fact it is turning out to be by far the most valuable asset of most couples.

There was a case in British Columbia, the Rutherford case, where I think they estimated the value of the husband's pension at age 55--and he was a middle-level public servant--was around $250,000. So to include the home and to leave out an asset such as this is really to say that the most important thing that spouses have accumulated will not be shared.

Mr. Cureatz: How would you see, on a practical basis, the pension being split?

Ms. Dulude: How would it be done?

Mr. Cureatz: Yes. On a cash basis to the wife now and the husband getting the pension later?

Ms. Dulude: I don't think that is the way it is done in BC. There is a whole range of choices because it is done in the States a lot, especially in California.

Mr. Cureatz: If we get into details, we could check on that.

Ms. Dulude: If you are interested, I have a lot of articles on the subject.

Mr. Cureatz: I suppose in regard to the registered retirement savings plan the same thing applies.

Ms. Dulude: The same thing applies. It is easy, in that case, to split.

Mr. Williams: On the point you just made, Mr. Cureatz, the Ontario Pension Commission is looking at the matter now of making amendments to the family reform legislation to recognize the sharing of pension benefits.

Ms. Dulude: I think it was quite misleading. If I recall correctly, the way it was put in the report of the royal commission, it said it is to be taken into account. I am sorry, if you are familiar with the report, maybe you could quote it to me. But it was to be taken into account in assessing. It didn't say alimony, but when it was reported, it gave a lot of people the impression that some of it was going to be given to the wife. So a lot of people didn't react because of that. You had to be a family expert, as I am, to realize that in fact it meant that it wasn't going to be taken into account at all. It was said in a fancy way.

I forgot to bring up the question of what happens between the ages of 60 and 64. The royal commission has recommended that the spouse's allowance be abolished. The way it was said misled a lot of people because it didn't come right out and say they should be reduced to welfare. It didn't use the word "welfare," and I had to translate this for so many people who, when they realized what it meant, were outraged. Instead of doing it that way, I think the fairer thing to do would be to have an income-tested pension starting at the age of 60 for everyone who needs it.

Mr. Cureatz: My final inquiry was whether you thought it would be worthwhile if the committee decided in its wisdom that there should be some direction to the Attorney General to look at the possibility of amending the Family Law Reform Act. Would you think it would provide some weight if we gave that consideration?

Ms. Dulude: I would very much be in favour of the committee recommending that it be done, that it be included in the assets to be split.

4:20 p.m.

Mr. Brandt: Mr. Chairman, an earlier speaker used some numbers to describe the age expectancy of males and females and did it in a somewhat different fashion to the way you did it. I would like to give you these numbers and see if you agree with them. I cannot recall who the speaker was, but I believe the remark was that males and females, by a percentage of about 80 per cent, will live to be exactly the same age, only 10 per cent of females will live to a longer age, and 10 per cent of males to a lesser age. Would you agree with that? Is that exactly what you said, but in a different way?

Ms. Dulude: Yes, it is. I used a different way of calculating, but that is true as well. I calculated that too.

Mr. Brandt: That was in defence, I believe, Mr. Chairman, of the unisex tables for actuarial purposes.

Mr. Chairman: There was not any recommendation to enable men to live longer, though, to equalize it.

Mr. Brandt: I think we should legislate that while we have an opportunity, but we can look at that later, Mr. Chairman.

You did not comment on one very large sector of the female labour force, which is one that we have termed the permanent part-time worker and is made up primarily of females working in retail stores and this kind of thing. Although your approach might change the method by which we would cover those kinds of people if we determine to so do, have you any thoughts as to where a part-time or a full-time employee might be determined in terms of the hours of work? Have you given any thought to that?

I recognize that what you were saying by having a homemaker covered, as an example, would perhaps offset that to a certain extent because this person, at least theoretically, would be working part time in the home and part-time for Simpsons or Eaton's or in a retail store or whatever. Have you given any thought to that area? If, in fact, we are looking at coverage not for the homemaker, as you are suggesting, but for permanent part-time workers to cover at least that segment, we have to come up with some definitive periods of time.

Ms. Dulude: It is, in a way, a question of definition because a part-time worker is a part-time homemaker, so I looked at it from one end and you are looking at it from the other. I looked at it from my end after concluding that it was very difficult to look at it from the other end, especially after having assimilated what it said in the Lazar report. It said that in the case of many low-income workers, and that includes the majority of part-time workers, it would not be a good idea for them to be forced to contribute to a pension plan.

I deliberately say "forced to contribute," not "to participate." If they are low-income, they would end up collecting less than what they had given up because of the GIS and the tax (inaudible). This is why, if there was an expansion of the Canada Pension Plan--of course, I looked at these things in the context of my proposals--I was recommending an increase in the basic exemption, because if the Canada pension plan were doubled, I do not think that low-income workers could pay double contributions. So I was recommending expanding, but nobody would be dropped out because the part-time, in that case, would be covered through the other system I am providing.

Another thing has been suggested, namely, if there was no direct inclusion of part-time workers on the basis of future higher earnings, the basic exemption be increased, but that the people not be dropped who are under the basic exemption. You could still keep the same level but have a zero contribution portion. That does not take care of your question, but you would have to calculate--I think you would have to have calculated--at which point it would not become so productive for people to be forced to contribute.

That is another reason why I think a PURS-type system is not good for women because they are mainly low-income workers, and you would find in many cases that it would be counterproductive to force them to contribute to those plans. In fact I think that is one of the reasons why the Canadian Life Insurance Association's recommended mandatory contributions would only start at a certain level--is it $8,000 or $10,000?--because they may well have calculated that below that the people could not break even.

Mr. Brandt: In an earlier question from the chairman with respect to the cost on your various recommendations, you indicated you did not have the resources to calculate those costs. I see where Madam Bégin--in your report at least you are quoting her--has said that part of the problem is one of cost and that it is going to take pressure from the taxpayers to bring about some changes.

Ms. Dulude: That was specifically increasing the guaranteed income supplement.

Mr. Brandt: She was not referring to a pension in that context.

Ms. Dulude: No, because my recommendations imply some savings. If the CPP is levelled, of course the cost of the contributions will be increased, but there are savings through abolishing the survivors' benefits which would be substantial. It is not clear where the result would be if she compared that with the Canadian Labour Congress recommendation, for example. It might end up being a lot cheaper.

Mr. Brandt: What I wanted to get at is, are you aware of a pension plan in another jurisdiction where homemakers are covered that you could perhaps give us some information on, something that we could either look at or compare to?

Ms. Dulude: There are several. One is in France where they are using that inflated income of half the average wage. There are two systems. One is for low-income families and, in that case, they do not pay any contributions. They have to have children aged less than 12 or something like that. There are no contributions to be paid because the contributions come from the family allowance fund which is there as a contributory fund which workers pay into.

For other women who do not have young children, or when the children grow up, or if the family has a higher income and the woman is at home, you find the same system you have in several other countries, which is a system of voluntary contributions. I think I list in my report several countries where they have or they have had at some time a system of voluntary contributions by housewives.

Mr. Brandt: That would be funded by the spouse, I would imagine. Is that correct? Are they government subsidies?

Ms. Dulude: It was the wife herself paying for it, presumably with money which she got from her husband. It did not work anywhere. This is the report on five or six countries.

Mr. Brandt: Yet, you are recommending--

Ms. Dulude: There are very few, not voluntary contributions, not at all.

Mr. Brandt:You are saying that the homemaker pension worked, but not the voluntary contributions.

Ms. Dulude: That is right. The one in France, based on a computed income where it is three or four women with young children, is working fine. Voluntary contributions, which have been mentioned many times by Madam Bégin--and I stated that I did not like that--do not work, because what happens, of course, is if you give people the choice of participating, it is only the ones who have money left over who will participate.

Also, you will have people participating only starting at the age where they realize such a thing is worth while, at the age of 40 or something. So they are participating. If you have a system like the system here, people participate all of their lives. The fact the pension gets more expensive for them as they get older does not matter because they contribute all of their lives.

But if you have a system where you have a group of people who only start contributing at 40, who then get the same pension if they contribute from 40 to 50 as if they had contributed from 20 to 40, based on the same benefits, that is a lot more expensive for the plan.

4:30 p.m.

I am afraid I am not making myself clear. Generally speaking, voluntary contributions are not at all a good idea and I would not recommend it. That is why I tried to find a plan where, in the case where there are young children, all women would register immediately. Of course, it would be to their advantage, the same as the French system.

In the case of the ones who do not have young children--that is why I tried to find an objective criterion to identify them--I think the married exemption under the Income Tax Act is a good one. Whenever you have a dependent spouse keeping home or a dependent daughter keeping home or a mother or--my recommendations are nonsexist, so it could be the father keeping home--then you have that deduction available in the Income Tax Act. The person is easily identified. So to say that whenever you take this exemption you have to pay the pension contributions for that person, you end up covering practically everybody who is homemaker.

Mr. Brandt: If I could clarify from the standpoint of how you would anticipate doing the funding for this again, the one method you mentioned would be a mandatory contribution from the spouse rather than voluntary. That is one.

Ms. Dulude: Yes.

Mr. Brandt: Second, a shift to some other program that would perhaps be redundant at that point; I think you mentioned the old age supplement as one possibility. You would take some funding from another program.

Ms. Dulude: No.

Mr. Brandt: Did you not mention that?

Mr. Chairman: Just survivor benefits.

Ms. Dulude: Survivor benefits would disappear.

Mr. Brandt: That funding would be applied against the funding that would be required to fund the homemaker pensions.

Ms. Dulude: For the homemakers who have young children, that would be a very insignificant cost. There are very few women of this age who do not go back to the labour force within seven years after they have a child. In terms of percentage, it is not very high. It would be less costly than the drop-out period. The drop-out period, if I recollect, has been estimated as 0.02 per cent. Does someone here recall the child rearing drop-out period? I think the cost would be 0.02 per cent additional cost and the free participation of other homemakers with young children would be considerably less than that, to give you an idea.

Mr. Mackenzie: This may be a little bit unfair, but it seems to me that inasmuch as we are now dealing with the whole broader issue of the basic pension system and what we do with Canada pension or what is the best approach, I am wondering if you have any observations on the politics of what seems to be going on.

Most of the comments you have made are ones I do not find it difficult to agree with. For a while, we had Madam Bégin going around the country saying how drastic the situation was and how much we needed to improve pensions in this country and she seemed to be directing her fire at improvements to the whole system of the CPP. Yet in the last two or three months there is certainly a perception abroad, if indeed it is not fact, that she has been backtracking like hell all over the place, or at least being an awful lot less firm on the position she was taking in earlier speeches.

I am just curious as to whether or not, from your perspective, you have any view on the politics of what is going on, because the decision we are going to make, in spite of all of the figures and all of the arguments we get here, is going to be basically a politically decision.

Ms. Dulude: I do not share your perception because I was distressed throughout about the fact that Madam Bégin's statements were so vague all the time, that she never did actually come out in favour of any particular option. In fact, the only thing that she did keep mentioning, and even then not exactly say she was in favour of, was voluntary contributions for housewives, which I do not support.

Mr. Van Horne: Excuse me, not even as an interim step? You would not accept that as an interim step to any modification?

Ms. Dulude: I think that was one of her views, but I think it would not be an interim step. I think it would close the door. Some people have said: "Why aren't you in favour of voluntary contributions? It would be the beginning, the foot in the door; then we would get other women to contribute." After thinking about it very seriously, I have concluded that it would take away the incentive of all the women who are sensitized about this issue now and who are pushing for some system of participation by housewives. It would shut them up and you would have killed your lobby for fair homemaker participation.

Mr. Chairman: And then charge them after.

Ms. Dulude: If I had thought that, I would have supported it.

I was going to add that politically there has been very little happening from Ottawa recently. But they may have their hand forced soon because there is a great deal of activity in Quebec right now. I saw a press report saying that the government of Quebec was considering making up its mind within the next few months.

Mr. Chairman: For amendments to the Quebec pension plan?

Ms. Dulude: As to improvements to private plans and possible expansion of the Quebec pension plan.

Mr. Chairman: You think that will force the federal government to address the Canada pension plan if they are going to remain parallel plans?

Ms. Dulude: Yes.

Mr. Haggerty: Well, hasn't the federal minister responsible indicated to the private sector to clean up their act? If they didn't do it, she was going to do it. The reports I have read indicate that if they do not clean it up, she is going to step in with amendments to the Canada pension plan and perhaps the private sector plans, saying, "You are going to have to come this way."

Ms. Dulude: Madame Bégin cannot speak like that because she is not Prime Minister.

Mr. Haggerty: That's right. So there is a green paper coming out on it, and probably there will be recommendations in that for the government of the day to act upon. I suppose she is not going to let that out until the time is right for it.

Mr. Brandt: Until she has talked to Mr. MacEachen.

Mr. Haggerty: I don't know. He may go yet.

Mr. Mackenzie: There is no money in that federal budget for it. That is why I have my doubts about it.

Mr. Haggerty: It may be in the upcoming opening of Parliament; perhaps in the throne speech there will be some indication that they will follow that. It will take them a couple of years to implement it; so by that time MacEachen can change his mind, and maybe the economic climate will have changed and look better to provide additional government revenue. I don't have to tell you that, Andy. You know that from municipal experience.

Mr. Chairman: I do not think Ms. Dulude has come before us as an expert in political posturing.

If there are no further questions of Ms. Dulude, I want to thank you very much for making the troublesome trip.

Ms. Dulude: I hope it was worth while.

Mr. Chairman: It was a somewhat arduous one, and I understand it was even taken at your own expense from Ottawa. So we want to thank you very much for coming before us today. It has been very interesting.

The committee adjourned at 4:38 p.m.

SELECT COMMITTEE ON PENSIONS

HOUSSER AND COMPANY

FAMILY SERVICE ASSOCIATION OF METROPOLITAN TORONTO

WEDNESDAY, JANUARY 13, 1982

Morning sitting

SELECT COMMITTEE ON PENSIONS

CHAIRMAN: Taylor, J. A. (Prince Edward-Lennox PC)
Brandt, A. S. (Sarnia PC)
Cousens, D. (York Centre PC)
Cureatz, S. L.; Deputy Speaker (Durham East PC)
Gillies, P. A. (Brantford PC)
Haggerty, R. (Erie L)
Jones, T. (Mississauga North PC)
Mackenzie, R. W. (Hamilton East NDP)
McClellan, R. A. (Bellwoods NDP)
Riddell, J. K. (Huron-Middlesex L)
Van Horne, R. G. (London North L)

Clerk: White, G.

Researcher: O'Mara, J., Legislative Research Service

Witnesses:

From the Family Service Association of Metro Toronto:
Couchman, R., Executive Director
Russell, I., Social Action Committee

From Housser and Company
Allen, W., Vice President
Armstrong, F., Financial Analyst

LEGISLATURE OF ONTARIO

SELECT COMMITTEE ON PENSIONS

Wednesday, January 13, 1982

The committee met 10:18 a.m. in room No. 151.

HOUSSER AND COMPANY

Mr. Chairman: I call the meeting to order.

We have three additional documents that have been assembled by Dr. O'Mara, a research officer with the legislative research service. Those documents are entitled: Various Income Scenarios for CPP/QPP to 2050; Recommendations with Special Reference to Women, and Economic Council Projections to 2031. They were distributed at the end of the meeting yesterday afternoon, and I wanted to announce those for the record.

We have with us today Mr. Armstrong and Mr. Allen from Housser and Company. I am wondering, gentlemen, if you would like to come forward. We have your submission, which is entered as exhibit 91 in our binders.

Mr. Van Horne: Before we get started, Mr. Chairman, what number should the presentation from the Ontario Teachers' Retirement Village come under? What number is that?

Mr. Chairman: The one from the Ontario Secondary School Teachers' Federation?

Mr. Van Horne: No, the Ontario Teachers' Retirement Village (Kitchener) Corporation. Is there a number for that?

Mr. Chairman: There should be.

Mr. Williams: Number 142 or 143?

Mr. Chairman: Number 143 is the Ontario Secondary School Teachers' Federation, the report of the royal commission.

Clerk of the Committee: It is number 144.

Mr. Van Horne: Okay. The other point is, you made reference to the presentation of these gentlemen as being number 91. For those of us who are new in the committee, it presents a problem.

Mr. Chairman: We have a couple of extra copies here if you care to have one, because it may be in a previous binder.

Mr. Van Horne: I have not got a previous binder, this is it.

Mr. Chairman: Gentlemen, I am sorry for the delay. I wanted to ensure that we had a good representation among committee

members and we are hoping to have representation from all parties. We are trying to ascertain whether there will be any member from the New Democratic Party here and we cannot locate any. Probably we should continue in any event.

Mr. Allen: Thank you, Mr. Chairman. My name is William Allen of Housser and Company Limited, vice-president in charge of institutional sales. This is my associate, Fleming Armstrong, chartered financial analyst, who has worked with me in the preparation of some of these documents.

Mr. Chairman: I was just going to say, Mr. Allen, that we now have Mr. Mackenzie from the New Democratic Party here, so for the record I want to show that all parties are present.

Mr. Allen: We are highly complimented.

Mr. Chairman: I am sorry to interrupt you.

Mr. Allen: Back in March 1978 we made a submission to the royal commission which expressed a number of views which we believed were pertinent to the issues and the arguments at that time. I am sure that particular document is in your files and is available for your examination. To assist the committee in its deliberations we prepared a summary of our submission to the royal commission, which you also have in your files. You referred to it a little earlier, Mr. Chairman.

I know that the principal purpose of these hearings is to allow the committee members to interrogate and question interested parties who have some expertise in areas that are impacted by pension policy and we would like to make as much time as possible available to you for that purpose. With your permission, Mr. Chairman, I have a bit of a preamble, some prepared words, that I would like to read to commence this portion of our contribution.

We certainly appreciate the opportunity to come before you to emphasize and underline the views that we have expressed previously in our submission to the royal commission and in a summary document in your possession. From our vantage point in the investment industry, and let me outline at the outset that we are here not particularly as experts in the technicalities of the pension area, but we are here expressing views relating to the impact of pension policy on the investment process, and that is our area of interest and that is our area of concern.

We must all find ways to diminish the imbedded expectations in the public mind that governments should look after their every need. Governments cannot do so, neither for the public's future standard of living as represented by a pension, nor for their present standard of living as represented by current consumption levels. The federal policy direction which is, as you know, to argue that expansion of the Canada pension plan is the way to go, perpetuates the cruel and impossible notions that governments can provide everything for everyone. It is a foolish and dangerous concept, totally ignoring the mountains of evidence that now thoroughly condemn such daydreams.

Where we are today, unfortunately, is that the future has become the present. The overspending habits of the past have caught up to us. Federal money supply increases, undertaken to finance excessive spending, lead to uncontrollable inflation. Incentives to save a depreciating dollar disappear. Bond prices decline to adjust for inflation and the depreciation of the currency that will be repaid on maturity. Speculative excesses appear in nonfinancial hard asset categories of investments, such as real estate and collectables.

Through it all, governments continue to try to respond to every demand of every group to look after them in every circumstance. Well, it simply will not work and we know it will not work, but unfortunately the public does not know it will not work. Sooner or later, some administration somewhere is going to screw up its courage, face realities and tell the public the facts, and the sooner this happens, the better. As provincial politicians, you are painfully aware of Ottawa's efforts, increasingly aggressive, to reduce the federal cost of tax sharing commitments to the provinces.

They fully understand the incredible whirlwind of rising costs and the matching high public expectations that mismanagement of the monetary system has created. They now wish to push the consequences of this mismanagement increasingly on to the provinces. It may be argued that they have no other choice, since continuing the federal spend-borrow-inflate-spend syndrome would be inevitably disastrous, and I certainly agree that is the case.

But that is not all that is being done. While pushing on to the provinces a much greater share of immediate costs, i.e., reducing their immediate cash outlay, they are also seeking to discredit the private pension system and argue that the federal government should take it over entirely to "protect" the public. A little analogy here might express what we feel in this matter. Since the number of chickens in the henhouse has been reduced because of the appetite of the fox, the fox now says that he should guard the eggs, and we find that quite incredible.

So we see that at the same time the federal government is systematically reducing its cash flows to the provinces, it seeks to increase the cash flow from the citizens of those provinces by increasing pension contributions to the Canada pension plan and away from private plans.

This would provide an indirect increased revenue flow to the provinces, of course, under the provisions of the CPP federal-provincial agreement, in the form of loans. This increase in funds available from the CPP is the temptation for provincial governments to go along with the federal intent, but we would and will argue strongly against that.

Unfortunately, Madame Bégin has some legitimate ammunition she has used very effectively. Perhaps we should thank her for so enthusiastically pointing out the weaknesses in private sector plans. But I hasten to add that, had past federal governments lived within their means and not resorted to money printing, then most of these weaknesses and shortfalls would not exist. There are fewer eggs because the fox is always hungry.

Gentlemen, you have a profound responsibility to advise the government of Ontario as to a proper course in these matters. May I say that we are delighted with the recommendations of the Ontario royal commission. It provided specific corrective action in the many areas where reform is overdue, in the areas of portability, disclosure and many others which we will not dwell on. But more important to our way of thinking, the commission has pointed the way, through the PURS plan, to a new and much more appropriate dimension in the pension universe, specifically personal responsibility and accountability.

As I indicated earlier, public expectations that government at one level or another will provide every need simply must be reversed. The promises of the past cannot be met without critical strain on governments, and hence on the private sector, which must in the end meet all the bills. Expanding the existing public pension system would add an additional unbearable burden to an already overstressed system.

10:30 a.m.

We would urge you to take the initiative so wisely promulgated by the royal commission, recommend the adoption of the PURS concept and begin the process of returning responsibility for pensions where it belongs: with the individual saver. The private citizen must begin to recognize that he and he alone is responsible for the standard of living he will enjoy in his retirement; government's only responsibility is to provide leadership by creating a system that will encourage the achievement of that laudable goal. The PURS plan provides that leadership.

The basic flaw in public pension plan philosophy is the use of the contributions. Governments take the contributions into general revenue, and thus these dollars flow into consumption-oriented applications rather than asset creation. The outstanding characteristic of the PURS plan is that the funds are made available to capital markets through objective and responsible professional investment managers who have been selected by the individual contributor to suit his individual needs. Although the manager may choose to buy federal or provincial obligations he would also undoubtedly invest frequently in private sector debt or equity, thus stimulating economic growth, stimulating asset creation and assuring that, in real terms, pension obligations could be met in the future. In addition, foreign ownership of Canadian resources would be reduced.

To quote from the royal commission, page 84, if you happen to have the document: "The PURS plan, while requiring a long time to mature, will immediately provide funds for long-term investment allocated through the private capital markets. The additional capital investment will generate real growth in GNP. The government will be required to borrow at market rates rather than under artificial rules set up under the CPP. Thus, PURS will increase real earnings before retirement and will provide the resources to pay pensions after retirement built on private capital investment. PURS, with its emphasis on employee control of investment policy, will encourage more people to learn about the investment process.

"PURS puts the cost-benefit relationship in clear perspective. If the economy prospers, real rates of growth will enhance the benefits accruing under the PURS plan. Each person will pay for his or her own pension and will also benefit from his or her own contributions. At the same time, the fully funded basis of this plan with its money-purchase design will contribute to the capacity of the economy to grow and therefore produce the promised retirement income."

In conclusion, it is our absolute conviction that the present public attitude of increasing dependence on government must end. In the critical area of pension policy you gentlemen have a unique opportunity to initiate the return to self-sufficiency which is the historical condition most natural to all Canadians.

Thank you very much for your attention. We are available for your questions.

Mr. Chairman: Thank you. I wonder if I could start things off. I am sure there will be questions from committee members.

I'm sympathetic to your philosophy that people have to be maybe more concerned with providing for their own welfare rather than have government do it for them. If that is so, however, how do you embrace the PURS proposal that mandates by government the forced saving of an individual and also a contribution or wage increase on the part of the employer? I wonder why you seem to be so overly eager to see this plan adopted when your philosophy is one of self-reliance and the freedom to manage your own affairs.

Mr. Allen: The plan provides the opportunity for the individual to be self-reliant. He is constantly aware of his contributions; he selects the manager who will achieve for him what he sets out to achieve with those pension savings. It is a government-mandated plan, of course, but it allows the individual the freedom to control his pension contributions and delegate with whom and through whom they will be invested, and it puts him in touch on a day-to-day basis with exactly how much money he has in his plan, how well it is doing and what his future standard of living will look like on the basis of those results.

Mr. Chairman: I hear a message that the government has been spending pretty freely--

Mr. Allen: Absolutely.

Mr. Chairman: --and I don't disagree with that. But now you are saying that there should be more spending, forced spending, on the part of the worker, mandated by government--

Mr. Haggerty: It's like another tax.

Mr. Chairman: --another two per cent and another two per cent. Can you explain your way into prosperity if you are concerned about the state of the economy?

Mr. Allen: I don't follow you that there's additional spending by government under the PURS system.

Mr. Chairman: No, it's not spending by government. But what I'm pointing out to you is that you're going to have mandated spending on the part of employers and employees all in the name of self-reliance.

Mr. Allen: Yes.

Mr. Armstrong: Mr. Chairman, can I speak to this? I think what we are looking at is the various alternatives we have in providing a comprehensive pension system for Ontarians. The royal commission was set up, as this committee is set up, to examine the idea of extending portability and full coverage. Of all the alternatives that were presented the PURS plan seems to meet those primary objectives first of all.

Second, in our view it is the most acceptable because it allows full discretion, as much freedom as possible under the system. We already are mandated under Canada pension plan and others and through our tax roles to supply pensions to citizens now. What this does is at least to allow a large measure of control and responsibility to reside with the citizen because, after all, under the concept of deferred wages, which is implicit in all this, it should be his responsibility to decide how he best wants his money spent. The obligation of the government is, of course, to make sure that some people aren't simply riding along with the others and expecting to be looked after in their old age out of the general welfare.

Mr. Van Horne: The problem I am having, Mr. Chairman, is that the whole concept presupposes expertise from Joe average citizen, who, I think, hasn't got a clue in the world about investment or world finance.

Mr. Armstrong: May I speak to that?

Mr. Van Horne: You can. I would like to add this, and maybe you could throw it into the pot in your answer: I think we have had some opportunity as individuals to get involved in our own retirement planning through such things as registered retirement savings plans, and yet my understanding is that a relatively small percentage of Ontarians are taking advantage of that. Beyond that I'm not sure that I could identify what percentage of those who do take advantage of it take advantage through their own skill. I suspect that they are using a commissioner or someone in there like yourselves to help them in the process. So the point is: How can this thing succeed, given that there is very little experience, expertise or whatever you want to call it among the citizenry not only in Ontario but in Canada?

10:40 a.m.

Mr. Chairman: Before you answer that, if I could just add--you can think about this as well: I see the PURS recommendation as attacking the problem of coverage where it's acknowledged by some. I don't know how accurate it is that there

may be a million and a half people in the work place who are not covered by any pension plan, so the PURS proposal would address that problem. There's also the observation that those persons who aren't covered are in the lower income or wage category.

I take that, together with your observation in terms of the lack of understanding among the general public of government spending and government's role in terms of solving all their problems, the basic lack of understanding of maybe some fundamental economic principles. For example, I don't know how you can consume unless somebody is producing what you consume.

Now, when you look at the target group, then you are saying, following Mr. Van Horne: "Those persons will be free now to look after their own investments, provided that government mandates a forced percentage of their income for them to invest."

I add that to what Mr. Van Horne has said.

Mr. Allen: Mr. Chairman, I understand your concern, and it's quite justified. But in no way did the royal commission suggest that the individual should manage his own investments or his own pension. The royal commission suggested the setting up of a central pension agency to which all these funds would flow and that each individual contributor has the right to select a manager.

Believe me, gentlemen, there is an incredible amount of expertise out there. We should be very proud of the expertise that exists within the framework of our financial institutions to manage money: insurance companies, trust companies, investment counselling firms, mutual fund management groups--there is a proliferation of expertise more than adequate to effectively, efficiently and objectively manage the money to the absolute benefit of the contributor.

All the contributor has to do when he is presented by his employer with this option is to avail himself of the variety of literature produced by these professional money management groups, select one that seems to have the goals he would like to achieve and designate that manager as the professional manager for his pension contributions. The central agency would look after that, and in this era of computers that is not a problem. That amount of dollars is allocated to that manager, and it is professionally and properly done.

Moreover, in the process of channelling these funds through the existing capital markets an impact takes place in that these funds are then available for governments to borrow, if they so choose, at a competitive rate. But there are many other things, as I mention in my preamble, that also would take place, and there would be a considerable stimulus for capital markets, for asset creation, for the formation of new companies and a variety of other things.

So it certainly should not be a problem to allow the individual citizen with a reasonable amount of material to look at to select a manager for his pension fund. I don't think that would be a stumbling block. I hope that answers your question, sir.

Mr. Chairman: Before I ask Mr. Van Horne to carry on, and Mr. Williams wants to ask some questions, I would like to ask you whether you are advocating a PURS program as such--in other words, not as an alternative to an enriched Canada pension plan but as something that should be done at this time.

Mr. Allen: Certainly. And the attractiveness of the PURS concept is a major plus in the royal commission's recommendations, but we find an expanded CPP to be a very unpalatable development, separate from a PURS concept. We have to move away from government looking after everyone, as I mentioned. Expanding the CPP tends to increase that tendancy.

Mr. Chairman: I am not talking about expanding the CPP. What you are saying is that--never mind the CPP, we are not looking at PURS as a better alternative to expanding the CPP. We think that, in any event, there should be a PURS program in place in Ontario.

Mr. Allen: I would certainly agree with that, but I do not think you can really separate the two issues. You are talking about the flow of savings and the flow of savings has specific and clear impact on financial markets and the ability of the system to pay meaningful pension values in the future. Implicit in the PURS concept is an attempt to increase the flow of funds in capital markets and increase total savings and capital accumulation in general. That would be diminished by an increase in the Canada pension plan. So that the concept, the whole purpose of PURS would be somewhat defeated if you also embraced an expansion of the Canada pension plan.

Mr. Chairman: Mr. Van Horne do you have further questions?

Mr. Van Horne: I did, but I think they have just been answered because what you are saying is that there is no alternative. You do not want to see CPP expanded, so either we go the PURS group or what you people make reference in here to the MUPS or whatever it is. Short of that, there is no alternative, there is no combining of the two. Let me go back and start at the beginning. Is there an alternative other than these two that you see?

Mr. Allen: Not in our view. We base that flat statement on some grave apprehensions of the health of the monetary financial system. As we see it, it is advancing towards a terminal condition. Gentlemen, all you have to do is take a look at current levels of interest rates and rising unemployment, inflation continuing to be a major problem to recognize and understand that all is not well.

One of the problems has been the willingness of governments to respond to what seem at the time to be legitimate demands for benefits of one kind or another, pensions being part of them, without a longer-term perspective on how those costs are going to be met in the future. I do not think it is particularly profound to suggest that at the present time we have amassed an incredible total of social expenditure requirements which are becoming an

impossible burden for governments at all levels to continue to carry.

Mr. Van Horne: Is there not an individual now paying for some of those right now, as we pay our income tax and--

Mr. Allen: Of course.

Mr. Van Horne: We are paying for old age security, we are paying for Canada pension--the contributions are there. Whether you can consider it a social handout, I just quite cannot agree with that statement. There are those persons who perhaps through some unfortunate situations, through health and disability and that--sure I think that is the obligation of society to look after them, but don't leave the impression here that everybody, because a person is collecting Canada pension and old age security, that it is a welfare handout, because it is not. Their contributions over the years build that fund up.

10:50 a.m.

Mr. Armstrong: May I speak to that? We all know very well that the present contribution rate of the Canada pension plan will be rising within the decade. Ultimately, it peaks at something on the order of nine per cent, that is if the benefits remain at the same level they are today. What we can expect with government plans is their costs are going to rise inexorably. It is not as if we could look forward to a relatively static level or ratio of their costs to remain in the future. We know they are going to rise.

What the PURS plan tries to do, and I think does it well, is while we have a breathing space before the costs of Canada pension plan rise because of the aging population, which is an absolute, we put in place a retirement savings system that will alleviate the strains that are going to be imposed on the nation and Ontario by the turn of the century.

This is what we are preparing for now. We are not trying to solve the pension system of today. We are trying to lay the groundwork for the future so that these inevitable cost increases can be met with some hope of solution. Any other proposal does not address that problem.

Mr. Haggerty: We talk about the investment and I was just reading on page 10 of your brief here: "The successful implementation of the PURS program will be ensured by the existence of the extensive, highly competitive and competent investment management industry. This industry includes banks, trust companies, investment counsel firms, mutual fund managers, insurance companies and investment dealers who manage and offer pooled and mutual funds investing in mortgages, bonds and common stocks."

I look at that thing. It sounds very enticing to get somebody to enrol into a program of investment, but, for example, there were many people who provided funds to look after their old age retirements through Re-Mor. Chief Justice Sam Hughes was the commissioner who looked after the royal commission on Atlantic Acceptance where millions of dollars went down the pipes and people

put their life savings into this looking for some means to good retirement program for them and that. There is nothing in here that says there is security in here if we get into such a program.

What is the rollover in the benefits to the investment sector? We talk about nine per cent for those who are contributing to the program, but what is the profit looking at the other side of the ledger of this particularly if we get into this program of PURS? What profit is there for you people who are in the investment thing? There must be a huge profit in this area. We do not see any projections in this particular area.

Mr. Armstrong: Let us address that because it is clearly of concern to the members. Let us put this whole business in perspective. Presently, we have about $60 billion in trustee pension funds of various sorts across the country. Interestingly enough, the RRSP program, which we referred to, is about $23 billion. Now sir, I would like you to point out one case in all the $23 billion where there has been a Re-Mor or Atlantic Acceptance. There isn't any.

Again, you are dealing with the exeption. Certainly, the case of Atlantic Acceptance was long before proper regulation, which has been instituted in this province. As a member of an industry which is one of the most closely regulated, we are well aware of how good that regulation is. I do not foresee any difficulty whatsoever. As for Re-Mor, I really cannot comment. They seem to be outside the area of the regulation I am familiar with.

Mr. Haggerty: It is an area that is, I think, of concern, particularly for this committee.

Mr. Armstrong: But I am simply pointing out the history that we have already had across the country--various other jurisdictions as well as Ontario that under the rules that have been promulgated, going back to 1957, there has been no difficulties with investments in RRSPs where those investments have met the standards set by law.

Mr. Van Horne: One final question, Mr. Chairman. You are likely aware that the inclination of this committee is not towards the PURS prospect. At least, I get that feeling, whether it is intuitive or whatever I do not know. Given that may come down as the final decision of the committee and given that there is reluctance to see the Canada pension plan expanded, could you suggest an alternative to encourage small groups or individuals to the RRSP scene, which could be pushed along or encouraged through government action? Is there anything you see us doing to encourage that, as a committee, or finally as the government?

Mr. Allen: I don't see that much difference in many ways between the PURS recommendation and some kind of RRSP type. They are very similar and parallel. To go back to what this other gentleman was saying, when you are allocating a professional money manager through a bank or a trust company where there is an incredible amount of experience in these matters, the possibilities, even were the investments legal--which I doubt they would be--but even if they were, the possibilities of such a

professional manager causing injury or harm to a contributor under a plan by buying a security of that kind is infinitely remote.

These are intelligent, knowledgeable people, and that is why the PURS recommendation in using that group as the managers of these funds is so attractive and sensible. That keeps the small, individual investor out of trouble. There is no way any legislation is ever going to prevent an occasional bankruptcy of some entity somewhere. It just cannot be. Somehow or other, somebody is always going to get himself into some difficulty, but the professional manager is sensitized to weaknesses and keeps the money he invests away from those kinds of entities. I don't think that is a problem, although there are a great deal of headlines when an entity of that kind goes under. Mr. Van Horne, the alternatives--perhaps there are alternatives that could be structured but I don't know of any that seem to achieve all of the laudable goals that the PURS plan achieves.

The principle we are trying to emphasize is to bring back the responsibility to the individual so that he knows in his mind that it is he that is looking after his future and he therefore has to save to look after his future and he has to select a manager who will invest the moneys intelligently and make them grow for his future. The present environment, to me, seems to be one of laissez-faire indifference by the public because they feel that government will always look after them, in any set of circumstances.

I put it to you that governments are beginning to understand very painfully, both in the US and Canada, that there isn't a bottomless pit of wealth, that they distribute some huge cornucopia from which they can constantly relieve all the problems and tensions and needs of society. It is that attitude by previous administrations that has created the problems that result in 22 per cent prime rates because the lenders simply won't have any part of this kind of nonsense any longer. The shortfall is made up by increasing the money supply which depreciates the quality of the money by increasing the quantity.

Mr. Haggerty: But have there not been some windfall profits in these high interest rates though? I think the banks have done very well on it. The trust companies have done very well on it.

Mr. Allen: Sir, if I may say, it is an illusion. The conditions of high interest rates that have provided what people are referring to as a windfall profit for the banks--there is another side of that coin. There is another ledger entry which you have not seen yet and that other ledger entry is the number of bankruptcies of small businessmen and individuals which is going to tear holes in the banks earnings over the next year or two. You have not seen that yet. That has not yet been revealed to you nor will it be until later on this year and perhaps for the next couple of years.

You are going to begin to see what the other side of the coin is for the banking industry and for other lenders. It is all very well to enjoy a high level of interest on loans that you are making but in this environment those interest rates are exacting such a toll in the economy that it may well be you are not going to get

repaid your principal, regardless of how high the interest rate is that you have been charging. That aspect of the lending activity has yet to impact and yet to be revealed but it will undoubtedly, and then perhaps many people will recognize it is rather misleading simply to take the profits of the banking system and other lenders in their present context.

11 a.m.

Mr. Haggerty: Perhaps looking down two years from now, but the point is I think it was mentioned that there was about $6 billion in private funds invested in the trust companies and other areas that you would mention there, and I suppose there is another $60 billion just sitting in bank savings accounts. Canadians are noted for being pretty thrifty.

I am looking at this particular thing and the high interest rates. Who has manufactured the high interest rates? I am sure the money institutions have something to do with it. Everybody is jumping on the bandwagon, even the government, because each one is fighting for a certain amount of capital. I think you mentioned government expenditures. Everybody is out trying to get the almighty buck there, but the poor guy who is at the tail end of this thing with his savings, he is going to be hurt in the long run. I am going to have it shown in my bank account, no doubt about it, that I will be paying higher income tax, so the government gains on that.

Mr. Allen: Sir, if I may respond, you have gone right to the core of our whole argument. Who has manufactured high interest rates? No one has manufactured them. The free market is what makes high interest rates, and the free market, made up of lenders in part, who perceive the federal government's tendency to continue excessive spending by printing money they do not have after taxes have been received, but to achieve what they wish to spend. That tendency produces an expectation in the mind of the lender.

As demands persist on government, as this public notion that government should supply everything to everyone continues, the lender says undoubtedly those political pressures will continue to force the federal government, in an attempt to satisfy these demands, to not only increase taxes, which they will do and are doing, and not only attempt to push most or a lot of their expenditures back on to the provinces, but also to make up the difference in the shortfall of expenditures and revenues by monetizing the debt, by simply creating the funds, by increasing the money supply.

I absolutely defy anyone in this room to tell me that you can recreate something, whether it is a unit of currency or anything else, endlessly recreate something and have it sustain and hold its value; it is simply not possible. The number of assets that the total dollars in the money supply represents can only be increased by work. If you try to increase the total value represented by the currency by increasing the amount of currency, all you do is reduce the value of each currency unit. That is just simple mathematics, and that is the way the free market system works.

Lenders perceive this process. In all fairness to governments, not only in North America but elsewhere in the world, they are attempting to get away from it, to slow down this insidious process of the destruction of the currency. But as the lender perceives this process continually at work, in spite of everyone's attempts to move themselves away from it, their willingness to lend on a long-term basis declines, and they demand a higher interest rate because they made a calculation on the expected level of inflation, that is, depreciation of the value of the currency stetching into the future.

So no one manufactures high interest rates, gentlemen, the free market demands it, because for years the lenders were subsidizing everyone else, they were getting a negative rate of return on their loans. They would get an eight per cent rate of return while the rate of inflation was 12 per cent, and that obviously could not persist. Eventually the lenders became totally disenchanted with this foolish nonsense, and they have simply said, "If this is going to persist, and our view of reality is that it will persist, then we are going to insist on 18 per cent if we are going to lend our money for a long term," and that is how you achieve high interest rates.

Mr. Haggerty: Should the interest rates then be pegged with the inflation rate? Supposing it is 12 per cent, the interest rate should be 12 or perhaps one or two percentage points above that.

Mr. Allen: No, you cannot peg interest rates. Interest rates are a function of the willingness of the lender to lend and based on his expectations of how rapidly the purchasing power of the currency he is lending today will be depreciated by the time he recovers it at maturity of the obligation.

Mr. Haggerty: To my knowledge, I read some place there was one country in Europe--I do not know whether it is Britain or one of them over there--where their interest rate was pegged to the inflation rate.

Mr. Allen: Governments throughout the world have tried any number of legislated attempts to control these unfortunate manifestations of, I must say, their own mismanagement. They dislike high interest rates. Everybody dislikes high interest rates.

Mr. Haggerty: If we were to go along with your philosophy is then that, say we endorse the PURS program here, this would be almost a cure-all, that the interest rates would come back down again because the private sector is investing out there.

Mr. Allen: You are providing an opportunity for the individual to have an involvement and control over how his pension moneys are going to be invested. But in no way is this going to be a panacea and allow interest rates to come down. It will have a positive impact on interest rates, that is it will help interest rates to come down.

But the real answer is that those who are in charge of the money supply must control the issuance of additional currency in

order that the quality of the currency already outstanding can be maintained. This is exactly what is under way and what is being attempted in the US.

I must say, in reference to Mr. Bouey, it is also very vigorously being pursued in Canada. It is the pursuit of this objective to control the quantity of money and thus preserve the quality of money and thus ultimately get interest rates down that produces the very condition that for a period of time thrust interest rates way up to new highs.

Mr. Haggerty: With the individual retirement agency or whatever you may call it in the United States, I guess when people invest in the private sector in this particular area there is a guarantee of return. Under this program I have not seen anybody come forward, to my knowledge, who said, "What will the return be on the person's investment?" It comes back to my question to you, "What is the rollover in this? What is the profit on the other side of this thing?"

Mr. Armstrong: I am puzzled about your reference to Americans. Do you mean the social security system?

Mr. Haggerty: Pardon.

Mr. Armstrong: Do you mean the social security system?

Mr. Haggerty: No. Their individual retirement agency or association as they call it. They are the same as our retirement savings plan here, similar to that. A couple can invest about $4,000 into it and you have a guaranteed return of about two hundred and some thousand dollars after 30 years.

Mr. Armstrong: Oh, well, the compound interest.

Mr. Haggerty: But you see we do not see anything--

Mr. Allen: A guaranteed return is expressed in paper dollars only. The purchasing power of the dollars at maturity of the plan when the individual wishes to retire is not guaranteed, is in no way guaranteed. That is the flaw. That is the slippage in the whole financial system.

For you gentlemen considering the whole issue of pensions, the fundamental requirement is that the money issuing authority maintain the quality of the money, maintain its purchasing power. If it fails to do so, all your deliberations and indeed even the PURS scheme are going to be considerably undermined.

There is no question whatsoever that the maintenance of the purchasing power of the currency is a direct responsiblity of the Bank of Canada. It is in the preamble to the Bank of Canada Act. To the extent that they depreciate the purchasing power of the currency, in other words inflation, to be able to spend more today, ultimately your pension benefits are going to be reduced in value.

That is the free market system at work. It is perfectly normal and perfectly natural and no one, certainly today with the

mountains of evidence that we have seen, should be surprised by this process. So I would suggest to you that yes, indeed, the PURS concept is a very beneficial one and would assist in the process of capital formation. It would assist capital markets to do their job to maintain pension benefits for contributors.

11:10 a.m.

But the real issue is the ability and willingness of the federal government to maintain the quality and purchasing power of the currency unit. If you cannot depend on that, then all pensions, no matter how they are structured, PURS or CPP or anything else, are going to be continuously eroded and depreciated, and will be of little benefit to the contributor at maturity. Indeed we now have many pensioners scrubbing along with what they thought, when they initiated a pension plan years ago, would have been more than adequate to provide them with a really decent standard of living, but at this present time they are very lucky if it will buy them a pack of cigarettes.

That is the insidious and evil process that depreciates the values of all investments, be they pensions, mortgages, bonds or savings of any kind. That is something, gentlemen, that you are going to have to address yourselves to, because the provincial government does not have that magic ability to monetize debt and simply increase the available moneys in your hands to distribute in a manner which would be appropriate in your mind. But the federal government does have that ability. That is the remarkable and important difference. If they abuse that ability, as they have done significantly and massively in the last 25 years, then I believe it is your responsibility to raise your voice as loud as you can and say, "Stop."

Mr. Haggerty: You can say the same thing with the province of Ontario. You are saying a lot about the federal government. I was a member of the select committee dealing with Ontario Hydro and their expansion program in the province of Ontario, and we found out there that one of reasons Hydro was going into so much debt was that they were borrowing money on the foreign market. So you are open to an area there that says--

Mr. Allen: Currency risks.

Mr. Haggerty: Ontario Hydro just poured, what, another $300 million or so on the American market. If you look at the devaluation of the Canadian dollar and the high interest rates, you are getting maybe 70 cents to your dollar. That is about all it is worth.

Mr. Allen: And you have the currency risks.

Mr. Haggerty: That is right, you have that. They have a large debt of borrowing on the American market. The same thing applies to the federal government and to any provincial government. Every time they are short of money, they go to the American market and we are at their mercy.

Mr. Armstrong: This points to the very important fact

that you must have a way of increasing domestic savings. I think that while we are being somewhat misled by our so-called statistical rate of savings, which appears to be higher than in the United States, the simple fact is that it is not, because unlike the Americans, we include our contribution to the Canada pension plan, which we know is not savings; it is simply being turned over and returned. Whereas the United States does not include social security payments as savings; they treat that as a tax. So when you adjust for that point, our savings rate historically have been very comparable.

If we are going to remain independent for whatever reason, then we must put in a fundamental foundation of our own savings system so that we can pick up the slack. Otherwise we will never have that independence which many people seek.

Mr. Williams: Mr. Chairman, I do not see the inconsistency that some members allude to in this support given by Mr. Allen and Mr. Armstrong for the PURS program. In so far as fostering individual responsibility in the provision of retirement income through employment pensions, I think they have made a neat but very basic distinction here that supports their argument and provides a degree of consistency.

I think what they are saying is that if government is going to lay on another level of compulsory payments, they want to give the people who are obliged to make these payments a right of control over those funds. While there may be a mandated program that would deal with the coverage problem that we have to address, it would also provide that element of flexibility and individual investment control over those funds; whether it is done directly by that individual or by his employer--and through a central agency out through the investment community; that is the appropriate mechanism, I guess.

Nevertheless, I can see that by keeping the money in the private marketplace, this is the basic distinction that provides individuality and creates real growth in the gross national product or the gross provincial product. It is completely distinct from the entrapment, if you will, of additional billions of dollars in the public sector if it was done through an expansion of the CPP.

So I think the distinction that has been made is valid. I don't see the inconsistency that is suggested because of the fact there might be another government program. It is the way that PURS program is structured that is the key to the differentiation that they address their brief to and the reason they give support to it, because built into it is the support for movement of these funds within the private sector. I don't see that inconsistency and I understand what they are driving at.

One of the central concerns we are going to have as we go through this matter is whether or not there should be a central agency if we go to the other two options that are open to us as a committee. If the first option of an expanded CPP is adopted by this committee, then there is no basis on which your point of view could be pursued. If we go to the other two options that the committee is also considering, which is PURS or leaving it entirely

in the hands of the private sector or some variation thereof, then, of course, your presentation has a great deal of relevance.

Mr. Van Horne gratuitously suggested his intuition is that the committee is going to go in a direction away from PURS, suggesting it leaves only the other two options open to us. I find that interesting. I don't know on what basis he arrives at that conclusion; although the other day we did have a very thorough and in-depth presentation of the PURS program, its advantages and disadvantages. Some members of the committee read into it a stinging indictment of the PURS concept. I didn't quite see it that way. I think there are certainly some very significant advantages to that program. I don't know that this committee has by consensus concluded that PURS is not a good thing, but it is interesting to hear Mr. Van Horne's comments.

Mr. Van Horne: You used the word "intuition."

Mr. Williams: You may be right; I don't know. I didn't think it was that clearcut.

Mr. Van Horne: And also the word "gratuitous." That is a word I don't find very complimentary.

Mr. Williams: Just as I am making a gratuitous remark. I don't consider it as--

Mr. Chairman: Gentlemen, without becoming argumentative, I think Mr. Van Horne made it clear he was expressing his own opinion.

Mr. Williams: That is right. I am just making gratuitous remarks now. I don't consider that as an affront.

We have those two things to grapple with in either of those other two scenarios: leaving it in the private sector and possibly with some form of mandating, or totally mandating with PURS. Certainly the private sector would be enriched as far as the flow of money in the community is concerned.

11:20 a.m.

There has been a lot of criticism in the past. Mr. Riddell spoke just a few moments ago, and also touched on it the other day with some criticism of that money being regenerated continuously in the public sector and not being out in the work place, so to speak, where it would be generating real capital and capital assets.

If the direction we went was an enriched and expanded Canada pension plan, those funds would be totally left in that sector, and I can appreciate your concern. I do not think it is a side issue. It is all part of this very important issue, because it has been indicated to us that if we went in that direction, in the next 30 years there would be more money in CPP than all the money in the country perhaps a few times over, that would be totally controlled by government. It is a frightening situation, but they say it can become a reality.

If we select one of those two options that keep the money in the private sector--and I know it will probably be said by others here that, with you gentlemen coming here, it is obviously because you have a vested interest in mind, that you want to assist your own wellbeing--but as I see it, if the money is going to stay in the private sector, the program, the mechanics of it, cannot work without the investment community.

You people are a very integral part of that system. I do not think you have been recognized, so far in our deliberations, as being a key element. Other speakers have said that the individual investor does not have the expertise, the knowledge or awareness to properly invest, and may be using the good offices of his employer to do it with his moneys and those of the other employees.

I think the vast majority of those employers, whether they are large, small or in between, will go to the experts in the field, people in your industry. I think it is good that we have people from your industry here to indicate an awareness of how much would be dependent on you people if we go in that direction, because the system will not work without you.

Others have been critical of the fact that others, before you, have come from your community and suggested, "Well, here you have a vested interest and it is self-serving, so why wouldn't you support PURS?" But if we are really concerned about where these billions of dollars are going, and if they are going to stay in the private sector, you will certainly be part of that action, no doubt about it. I do not think there is any need to be ashamed of that fact. You should be proud of the fact.

Mr. McClellan: Was that the question?

Mr. Williams: No. I am making a few gratuitous remarks, as well.

Mr. Chairman: I might just draw your attention to the time, Mr. Williams. There may be questions from other members, and we have another delegation waiting.

Mr. Williams: Yes. Having made that long preamble to the question I wanted to ask, and recognizing that fact, Mr. Chairman, has your company considered that other third option as far as leaving it entirely in the hands of the private sector to bring forward acceptable plans for coverage and so forth? I presume that would not really concern you; it is more the fact that the money stay in the private sector. Whether we accept option A or B of those two may be of concern to us, but not necessarily to you, as long as the money stays in the private sector. Is that correct?

Mr. Allen: There is no question we would prefer to see the money remain in the private sector, but I do not think we are completely insensitive to the practicalities of the situation. I personally would like to see the government provide this initiative and, indeed, require individuals to save, because unfortunately there is this prevailing notion that the individual does not have to save. "I don't need to save because someone will always look after me" is a very persistent prevailing notion, and, in order to

redress that, a mandated program is needed where the individual is required to put aside a small percentage of his income to provide for his future.

As much as I would wish we did not have to do that, that the individual would understand that he should save for his future and be allowed to do it on his own, I have to admit that the full amount of coverage that government would like to see exist would not exist if you allowed the individual to make the decision on his own. So, I would prefer a mandated program where those savings are put aside by requirement by law and that proper and professional management is applied to them to make them grow.

Mr. Williams: Just one last question, if I might. This central agency would be an intregal part of the PURS program as I understand it. It has been discussed in looking at that other option of giving the private sector greater responsibility. Some members have questioned whether in that setting you would need a central agency. I am inclined to think you would, but I am wondering what your view would be.

Would you see that as an appropriate mechanism which would have to remain in place to let the central agency either allocate the investment to the different investment houses, or to let the company, if it wishes, go direct? In other words, they would have an option to go either direct, or through a central agency if they are too small a company to have the time or resources to do it on their own.

Mr. Allen: The central agency would be, in effect, a computerized clearing house for the contributions and the allocation of those contributions. In the case of an individual contributor who made no selection, it would be the responsibility of the central agency to allocate those funds to a manager or managers of their selection based on some appropriate criteria as to performance, security, et cetera, on behalf of that contributor. The benefits would flow to the contributor, ultimately, as if he had made the selection himself. But inevitably you will find people who will not make the selection, and it would be the agency that would have to make the allocation on their behalf.

Mr. Williams: So you see nothing wrong with the concept of a central agency in either situation?

Mr. Allen: No. May I also make one comment? You said "allocating to various investment houses." It is not investment houses in the broker community as such that would be the recipients of the responsibility to manage these funds. It would be the financial institutions--banks, trust companies, insurance companies, investment counsel and so on--who would have this responsibility, not individual brokerage firms.

Mr. Williams: I stand corrected. Thank you for your basic lecture on economics and the realities of the situation of the day.

Mr. Armstrong: I would just like to make one additional point here. Initially we foresee that because they are awfully small amounts that would accumulate in individual accounts, the

central pension agency would likely be relied on considerably. People would perhaps just not make the choice. But as these funds build up, I am sure their own best interests will come to the fore and that these people will take a considerable interest in their own account and start to look around to see where they can enhance their returns, just as we found it to be the case in registered retirement savings plans.

Mr. Chairman: Thank you very much, gentlemen. We appreciate your concern for the general state of the economy. I cannot understand why more people did not anticipate what was going to happen a decade ago, to be perfectly frank. The handwriting was on the wall, and for some reason we have been following a very hazardous economic course.

I do not think you subscribe to the view that the PURS program is going to solve that particular economic problem, but we appreciate the philosophy of your presentation and the need for more individual savings and responsibility. We appreciate your coming before the committee today and the time you have obviously put into the preparation of your submissions. Thank you.

11:30 a.m.

Mr. Allen: Thank you, Mr. Chairman. We are available to the committee at any time if there are any further questions or anything we can do to help.

FAMILY SERVICE ASSOCIATION OF METROPOLITAN TORONTO

Mr. Chairman: We have with us Mr. Bob Couchman and Miss Isabel Russell of the Family Service Association of Metropolitan Toronto.

Mr. Couchman: Thank you very much, Mr. Chairman, for inviting us to make this presentation. I just might say a very quick word about the Family Service Association so you will appreciate our perspective.

The Family Service Association of Metropolitan Toronto is Canada's oldest and largest family service agency. It is a voluntary sector agency, receiving almost all its funding from voluntary sources. We receive approximately eight per cent from government, so we are, as I pointed out, a voluntary social service agency. This gives us perhaps a little different perspective on this particular issue.

We are not a social planning council nor a policy body. Our work is direct service with families, and involved in that work each year is some work with approximately 2,000 senior citizens both in counselling and in the provision of holiday programs, and various group service programs. Having worked with seniors now for 65 years, we have been able to watch very carefully what is happening to our senior population and to hear their concerns expressed directly. We are not economists and we are not social policy analysts, so our comments today are directed, basically, from our direct experience with those seniors with whom we have worked.

We responded to this issue because of the Coalition for Pension Reform. Miss Isabel Russell is a volunteer and a member of our social action committee who has been liaising with the Ontario Coalition for Pension Reform. In bringing that work to us, we began to make certain observations and comments, and corresponded with you directly, as well as with the Honourable Monique Bégin. She has corresponded back to us on her observations and concerns about pensions.

We appreciate that people have a responsibility to care for themselves and, by and large, I think the working population of Ontario does a not unreasonable job of that. We note that 49 per cent of working men in Ontario and approximately 27 per cent of women are covered by private pension plans. Our concern goes to those who are not covered by adequate private pension plans.

When an issue like this comes up, we ask ourselves why it is that government is concerned about this particular issue. Obviously you do not have the same interests as the delegation that preceded us. I think, if I could summarize, probably your interest on this whole issue of the pension plan and the PURS proposal arises because government is interested in ensuring equity and adequacy of pension care for elderly citizens in Ontario. I think that is a basic assumption as to why government would even address this particular issue.

If that be the case, the group we are particularly concerned about, and perhaps we have some unique perspectives to offer, is the family and what is happening to the family in 1982 that may change the whole nature of the pension plan.

We note from the documents we have read, not only those which have been put out by this committee and by the Ontario Economic Council, but in almost all the literature on pension plans, they make the basic assumption the average family in Canada is made up of two people. We know now that in half of the families, approximately, in Ontario that have children both husband and wife are working. Therefore, they are potentially eligible for private plans. Nevertheless, about half of the women in Ontario are still at home and still caring for their children.

The assumption on private plans is that the couple will stay together happily married, that they will continue to prosper and grow and their children will leave home and prosper and grow and that when they come to the age of 65 years, the husband's pension plan will offer sufficient coverage to the wife so that the family can live above the poverty line. That is still the case in many situations, but increasingly it is becoming less and less the case.

In the last 10 years we have watched the divorce rates in the province and across Canada increase from approximately 10 per cent back in 1968 to approximately 30 to 35 per cent depending on where you live in Ontario right now. Those rates are not declining, so of the families that could be covered by these pension plans, from the looks of it, about one third of them are going to be disrupted.

Mr. Van Horne: Is that exclusive of separation?

Mr. Couchman: This is not formal divorce. This would be legal separations plus divorce. One's assumption would be that at the end of their working lives in all likelihood one of the members is going to be in a very poor position to cope in old age.

We noted when we made presentations to the Ontario Law Reform Commission, when it was looking at changes in family law, that there are provisions within that law upon separation or divorce for some of the husband's benefits, or in a few rare cases these days some of the wife's pension benefits, to go to the other spouse. We do not know what has happened in the courts in regard to that. We are not overly optimistic about it, but that is a group that is going to take hold.

It does seem that it leaves women in a particularly vulnerable position. We note from most of the literature and from our experience that many women are reaching the ages of 65 and 70 and the various pension provisions that they have available to them do not allow them to live above the poverty line. In the proposal that is before you, from your own commission, the Canada pension plan, none of these pension plans provides for this particular group of people. They are in a very vulnerable position.

The other group that is particularly vulnerable are those who are low-income earners. Just thinking about the responsibility of the individual to care for his own old age, even if these people wanted to care for their own old age, they are falling further and further behind in the cost of living and, speaking of small businesses going under, we are seeing an incredible number of people who are coming to us who cannot even provide adequate food and clothing and so on for their children, particularly at this time of year.

One mother said to me the other day, "What happens to you when Kraft dinner becomes a luxury food item?" When you see people living at that level of income, the idea of encouraging them to invest in pension plans is difficult. I think ultimately, whether we like it or not, we are going to have an increasing number of our population caught in that bind.

The idea that we would somehow develop a plan which is tied to one's employment, making it mandatory or whatever, is only going to cover those people who are working, who are not in that vulnerable position. I guess we are particularly concerned about that other group and how that group is going to be covered.

Therefore, in our letter of September 3 to you, Mr. Chairman, we strongly recommended that in any pension development, whether it be in PURS or in the Canada pension plan, the woman who is a full-time homemaker be considered in that plan and that those marginal workers in our society who are not eligible for private pension plans somehow be considered for pension coverage so that when they do reach the age of 65 there would be adequate funds available for them.

I think Miss Russell has a few more specific comments about

that, if she could take a minute to enunciate. She is my technical expert on this subject.

11:40 a.m.

Miss Russell: We feel very definitely that the peculiar and special position of women should be addressed in the whole pension issue. I should just like to give you a few statistics, with which you may be already familiar. Under the Canada pension plan, women who receive a survivor pension get only 60 per cent of the spouse's original pension. In 1979, the maximum benefit for a surviving spouse was $1,570. The maximum pension in 1979 was $218 a month. The average paid to female pensioners in the fall of that year was $90 a month. Women in employer-sponsored plans in 1976 averaged only $2,122 a year. By the fall of 1979, 59 per cent of married women in the age group between 20 and 44 were in the labour force. We feel serious consideration needs to be given to the place of working women in the pension system and policy options developed to improve their position.

In relation to social policy, that extends beyond the issue at which we are looking today, with the implications that it has for other areas in the development of productivity in our people. We feel there has been a failure to recognize the role of women in the bearing and raising of children and in the contribution that they have made to the economy of this country.

I think it is interesting to note that an amendment brought before the federal government, whereby the parent could withdraw from the labour force for seven years to raise a child without having to include those years in the calcuation of average lifetime earnings on which the final pension is based, did not get the necessary approval. The provinces that blocked the approval of that were our own and British Columbia.

As Mr. Couchman has stated, an amendment did become law in 1978, which allows couples at time of divorce to share the credits which have been built in during the course of their married life.

In the short term, PURS does nothing whatsoever to meet the most pressing needs of particularly the elderly woman. Three quarters of old people living alone are women. In Canada in 1977, 55 per cent of women between the ages of 65 to 69 were living below the poverty level, as were 65 per cent aged 70 and over. The PURS, which would take 47 years to mature, just simply could not put in place anything related to the immediate and most pressing needs of the situation, nor can it meet the needs of the working poor, of which in 1977 in Ontario, we, along with Quebec, had the largest number of units in Canada.

A PURS plan would simply mean the dissipation of what disposable income they have. It would create very serious problems for this group of people in the marginal labour force who are an essential part of our economy.

Mr. Chairman: I gather what you are saying is that the PURS proposal would further deprive the people in the lower income brackets who need the money of much-needed purchasing power.

Miss Russell: With the government-tested programs, they would be able to get at least a basic income that would not make it necessary to use their disposable income in such a way.

Mr. McClellan: Thank you for a very good presentation, particularly the material from Miss Russell, which I think was useful to put the discussion back into a context after the previous deputation. That is just my bias.

I assume you are supporting the proposals of the Coalition for Pension Reform.

Miss Russell: We see the Canada pension, with reform, as the vehicle through which an equitable program in this country can be developed.

Mr. McClellan: There are two debates. I will make some gratuitous remarks.

Interjection.

Mr. McClellan: There are two debates that took place. The first one took place with the first delegation that was here this morning, which was whether or not there should be an enrichment of public sector plans or whether in their view the reliance should be on private sector plans.

The second debate, which we got into yesterday afternoon, was if we go the public route, what is the proper shape and design of a public sector plan to look after precisely the constituency that Miss Russell was talking about, particularly women who choose careers primarily in the home as opposed to careers in the work place or, secondly, women who are in low-wage occupations throughout most of their working lives.

Leaving aside the whole debate, whether we go public or private, and assuming, just hypothetically, that we have decided to go in the direction of the Coalition for Pension Reform, which is the public sector route, all kinds of questions then arise about how one should redesign the Canada pension plan in order to cover particularly women and, secondly, low-income wage earners. The Canada pension plan, as you are aware, is basically regressive in its design. It favours high-wage earners over low-wage earners. Secondly, any occupation-based plan is never going to cover women who choose housework careers.

Have you given any thought to that set of dilemmas? Do you have a particular set of design proposals that will ensure that if we go the public sector route, we can provide both for home workers and for low-wage earners?

Mr. Couchman: We have given active consideration to this particular question, and while we did not address it our letter--we know it is a long-term development--we feel very strongly that eventually right across Canada we will have to move to a guaranteed annual income. The patchwork quilt of pension plans and various welfare systems that presently exists needs to be integrated. That

is a big effort. In any debate I have heard at the federal level at least, none of the major parties disagrees with that development. In fact, I had dinner one night with one of the ministers here in Ontario who said he suspected that within 10 years we would see that kind of development right across Canada. It is a question of how it is funded.

11:50 a.m.

We have been very keen in the past about universal programs. The previous delegation speaking to the development of these programs said now is not the time to recommend in Canada, or anywhere in the western world for that matter, another universal program. We have had to take some strong looks at our arguments and, at this point, we are coming to the realization that a large portion of those so-called welfare dollars that are expended federally and some provincially are going to medium- and high-income earners, that is, we are not investing equitably the welfare dollars that we do raise through the tax base. Sorry, to correct myself, we are providing equity, but we are not providing it for those who really need it.

At some point, I think we have to take a long hard look at some of the universal programs because there just isn't any more money there. We have to use the money that is there in a better way so that in the long term we are looking towards guaranteed annual income. However, in the short term--and we didn't want to make that our major point in this presentation today because we realize you are trying to address the pension issue--I think within the next five or six years, this is where the major debate is going to occur.

In correspondence to us, Monique Bégin said that she felt this was the major--in fact, I can quote her remarks to us: "I am delighted that a prominent organization like the Family Service Association of Metropolitan Toronto is becoming involved in the public discussion on pension reform. This may well be the most important social policy initiative of the decade." I think she is right and I think that is probably where the debate rests right now. However, later in the decade, I think we are going to have to move ourselves away from these patchwork quilts and reform them to a more equitable system of income distribution. That may go beyond your question.

Mr. Chairman: May I interrupt you here? Mr. Couchman, you happen to have been privileged, I suppose, with a communication from Madam Monique Bégin. I must say I have been trying to contact her myself. Maybe you could share some of her views through that correspondence to the committee.

Mr. McClellan: The chairman is trying to say that she has given us the brush off.

Mr. Chairman: I was interested in the quotation from that letter you have. I think the committee might be interested in following that up with the minister soon.

Mr. Couchman: This is my only copy, but I would be pleased to leave it with the clerk.

Mr. Chairman: We could photocopy it while you are here.

Mr. Couchman: The letter is not dated, but it was received on October 28, 1981, so it is a letter written by the minister in the month by October.

Mr. Chairman: As a matter of fact, we have been trying to clarify what her views are in this area of pension reform.

Mr. Couchman: She was very generous in her comments to us. There are two pages of specific comments about CPP and pension reform.

Mr. Chairman: We had someone in from Ottawa yesterday, a Ms. Dulude who didn't think--At least the message I got, and other members of the committee might have as well, was that Mrs. Begin was not as clear and unequivocal in her views as might be expected, when one reads some of the newspaper reports that one of our members, Mr. Mackenzie, has referred to on occasion. It was a question of whether there is a public posture that may not coincide with sincere intent, if I could put it that way.

Mr. Mackenzie: It is a question of put up or shut up.

Mr. Chairman: Mr. Mackenzie was a little more forward in expressing this. Do you have a question, Mr. McClellan?

Mr. McClellan: I thought I had the floor.

Mr. Chairman: I was not sure whether you had finished or not. Carry on, please.

Mr. McClellan: The family service association, you have suggested in your brief, is increasing work with elderly people.

Mr. Couchman: Yes.

Mr. McClellan: Could you talk a little about the kind of experiences you are seeing show up in your caseload?

Mr. Couchman: We have increased our programming on two major fronts. One is more of a therapeutic recreational program. We have seniors now attending Bolton Conference Centre. They do cross-country skiing and snow-shoeing and that kind of thing. We get a chance to talk with seniors in that kind of relaxed atmosphere, but at the same time we have developed, through the help of the province, a program for the counselling of seniors about specific life issues, not personal psychiatric issues, but about just living.

That program is run by a group of volunteers largely, with one paid staff member. We are just beginning to get input from the seniors about what specific problems they are facing. Most of those can be put down to economic difficulties, housing questions, support services in the home, problems with finding proper nursing care. Most of the issues revolve around lack of services and lack of income to provide for these services for themselves.

Mr. McClellan: Are you encountering any serious poverty problems?

Mr. Couchman: We are finding poverty problems. For example, all these horror stories you hear about seniors eating dog food and all that sort of thing, we have not seen any of that sort of thing, but it may well be. However, you certainly get the impression from talking with many of these seniors that the income they do have is extremely limited. One gentleman who is aged 82, and whom I have helped personally over the years as part of his program, was an immigrant to Canada in 1956 and worked for 25 years for a major tire company warehouse. I make out his income tax each year and he has $98 private pension. I think to myself that, while the company did not have a pension plan until he was, I think, 10 years into his employment, the comment about it buying a package of cigarettes is just about where it is at.

Listening to that and watching that income rising ever so slowly in comparison with the cost of living and watching the seniors giving up the few little luxuries they do have is a very moving experience. While I appreciate that this committee is not charged with the responsibility of doing something immediately about the current pension plans, we have been trying to push in that direction as well because there are a number of people who need that help right now. They cannot wait for 47 years or whatever the time is.

Mr. McClellan: We did recommend, by way of a final comment, in our first report that the guaranteed annual income system pensions for singles be raised by the Ontario government immediately. Unfortunately, that met with some resistance on the part of some members of the committee and, secondly, it has not been implemented yet. But we remain optimistic that the government will implement that part of our report.

Mr. Williams: I just have one question, more of a clarification really. The valid concern you express about being one of the main reasons, as I understand it, for imposing PURS is that it would take more money out of people's pockets rather than having it available for immediate use because of the obvious additional contributions that would have to be be paid.

That is a concern this committee has, too, about that negative aspect of PURS, that it would, for those who want the money available now for use--what limited money there is--negate that direction. But in supporting an expanded CPP, would not that negative element also exist there if an expanded CPP had built into it, of course, additional premium payments to enrich that program? Would we not also have that same problem there as you would with the PURS program? It is just one level of government rather than the other.

12 noon

Miss Russell: I think that there could be exceptions. Tax credits could be worked on. We come to look at our whole income tax setup where there could be written in income-tested programs, areas and exemptions also for these people. There already do exist exemptions. Also, it eventually will mean an increase in contributions generally to the fund.

Mr. Williams: In either way, either in the CPP or PURS. That was my concern.

Miss Russell: The whole question of the inflation tax credit was an area that was of concern to us, with the double counting, if you like, the over-inflation element in it and the expense involved in administration and so on and the reconciliation of the different plans.

Mr. Mackenzie: What would your reaction be, as part of the package that has to be put together to deal with more adequate pensions, to a sizeable increase in the old age supplement portion of the package as a general revenue item in effect now?

Miss Russell: I think it should be looked into as a possibility.

Mr. Couchman: Yes, I think some of those things are going to have to be looked at as temporary measures until we can come up with a more rational overall system, but the mechanisms are there to provide--

Mr. Mackenzie: Also answers might mean that would be less of an increase needed in basic, although taxpayers are still paying for it obviously, but less of an increase than the CPP increase if we started at a higher basic old age security payment. I am thinking in terms of the low-income problem we have because the other thing we face is that somewhere between 54 per cent and 56 per cent of all the people in pensions are collecting Gains or guaranteed income supplement, so obviously those are the group of people which in most cases are not going to have the money to buy PURS or even spend a hell of a lot more on CPP unless we have a tax credit system in place.

Mr. Chairman: Any further questions?

Miss Russell: I wonder if I could ask a question. May I ask a question, Mr. Chairman?

Mr. Chairman: Yes, you certainly may. The quality of the answer may not be as good as we got from you, but go ahead.

Miss Russell: It is the question as to whether the investment structure of Canada pension could not be altered, the question that was raised earlier.

Mr. Chairman: I can only express a view that by agreement I do not see why the Canada pension plan could not be amended in any respect.

Miss Russell: But if the investment structure--

Mr. Williams: Investment structure is under agreement. I gather there is nothing to prevent the investment of the Canada pension fund in the private sector if that was the decision of governments to direct it in that way.

Mr. Couchman: I think that was a major concern of the previous delegation. From the way we can appreciate that concern as that pension plan grows and grows and grows, some of that money needs to be put back into the private sector to stimulate the economy.

Mr. Chairman: It would depend, of course, on the funding. I think fundamentally what we have suggested is a pay-as-you-go plan with cushion.

Mr. Van Horne: As a departing comment--I hope it is not gratuitous--Miss Russell and Mr. Couchman have just been given a copy of our interim report. I am wondering if either one of them, as they look over this after our meeting today, react to any of the recommendations, if they would send that reaction back to us before we finish our hearings in another couple of weeks.

Mr. Couchman: Our social action committee has been working on the pension issue now for some time, along with a number of other issues. I am sure they will be delighted to have this document. You can be sure they will respond to it if that be your wish.

Mr. Chairman: Thank you very much. No further questions? The clerk has reminded me to remind you that this afternoon we will be hearing from the Police Association of Ontario at 2 o'clock. Its submission is exhibit number 74 if you want to check it in the interim.

Mr. Williams: What about the other delegation? What exhibit do they have?

Clerk of the Committee: They will send it in.

Mr. Williams: It is going to be distributed this afternoon.

The committee recessed at 12:06 p.m.

SELECT COMMITTEE ON PENSIONS

POLICE ASSOCIATION OF ONTARIO

FEDERATION OF ENGINEERING AND SCIENTIFIC ASSOCIATIONS

WEDNESDAY, JANUARY 13, 1982

Afternoon sitting

SELECT COMMITTEE ON PENSIONS

CHAIRMAN: Taylor, J. A. (Prince Edward-Lennox PC)
Brandt, A. S. (Sarnia PC)
Cousens, D. (York Centre PC)
Cureatz, S. L.; Deputy Speaker (Durham East PC)
Gillies, P. A. (Brantford PC)
Haggerty, R. (Erie L)
Jones, T. (Mississauga North PC)
Mackenzie, R. W. (Hamilton East NDP)
McClellan, R. A. (Bellwoods NDP)
Riddell, J. K. (Huron-Middlesex L)
Van Horne, R. G. (London North L)

Clerk: White, G.

Researcher: O'Mara, J., Legislative Research Service

Witnesses:

From the Police Association of Ontario:
Carkner, G., Director, Ottawa Police Association
Connolly, M., Administrator
Garchinski, J., Director
Gilmour, R., President, Peel Region Association
Hutton, B., Director, OPP Association
Lymer, A., Vice-President, Metropolitan Police Association
Standard, D., Chairman, Pension Committee

From the Federation of Engineering and Scientific Associations:
Bailey, C. M., 2nd Vice-President
Shalaby, A., Chairman, Salary and Benefits

LEGISLATURE OF ONTARIO

SELECT COMMITTEE ON PENSIONS

Wednesday, January 13, 1982

The committee resumed at 2:09 p.m. in room No. 151.

REVIEW
(continued)

Mr. Chairman: Gentlemen, this afternoon we have the Police Association of Ontario. There is quite a delegation: Mr. Donald Standard, chairman of the pension committee; Mr. Mal Connolly, administrator; Mr. Rod Gilmour, president of Peel Region Association; Mr. Jim Garchinski, director; Mr. Art Lymer, vice-president of the Metropolitan Police Association; Mr. Bill Hutton, director of the OPP Association; and Mr. Glen Carkner, director of the Ottawa Police Association.

I don't know whether Mr. Standard will be bringing forward the principal message or not. If so, would you mind coming forward and bringing with you as many as there are chairs for there?

Mr. Standard: Mr. Chairman, the gentleman to my right is Mr. Rod Gilmour, the chairman of the board of directors of the Ontario Police Association. Next to him is Jim Garchinski from Hamilton, who is representing not only the Police Association of Ontario but the Hamilton association as well. From Metro Toronto we have Mr. Art Lymer, representing the three Metropolitan Toronto plans, representing the Metropolitan Toronto Police Association and a member of the committee. I will act as spokesman. I am sure if there are any questions, we would be glad to do what we can to answer them.

Mr. Chairman: The committee members have had their brief for some time. It is marked as exhibit 74.

Mr. Standard: We appreciate the opportunity of appearing before the committee. We did, as Mr. Taylor suggested, submit our brief in rather detailed fashion to this committee after making a thorough study of the royal commission report on pensions. As a result of this brief, we would like to make some comments about our concerns with respect not only to the brief but also to the royal commission report.

We represent approximately 16,000 policemen in Ontario, including the OPP. Seated with us is a member of the board of directors of the OPP, Mr. Bill Hutton, who will also represent this committee; and of course the administrator of the Police Association of Ontario, Mr. Mal Connolly, is also here. We also have, representing the city of Ottawa fund, Mr. Glen Carkner, a member of the committee.

Our presentation to this select committee is with regard to the royal commission report. I would like to elaborate on some of the important sectors of that, particularly the private sector plans. Your committee has made its first report to the Legislature

but we would like to make some comment on that, and regarding the public sector plans, on which I presume you have held off making a report until you have heard all the people involved. We would also like to comment with respect to early retirement provisions, about which police officers are very concerned.

Mr. Cureatz: Will this be basically following on your report on page three or six, or are you following your report?

Mr. Standard: No. I haven't followed anything with respect to the report. I am just making general comments.

We note in the select committee's first report to the government that your report is focused mainly on private sector plans. In some areas we must agree with you and with the royal commission report that perhaps there are some necessary improvements or provisions to be made with respect to the private plans. But our main concern here and now is what effect the changes in the private sector plans are going to have on members in the public sector.

We appreciate there are many basic problems in the private sector plans, starting with inadequate pensions and lack of inflationary protections. There is the problem of vesting, whether it is compulsory or not. There is the matter of portability. In our opinion, both vesting and the portability of pensions are a very important factor, where people jump from one job to another and so on.

The only problem is whether legislation could be provided to make it work because portability, naturally, right now you are talking about Ontario, but certainly people are not standing still today. If they move from Ontario, like many of them are doing, to the west, unfortunately, there is no provision in there. With legislation, portability is a very important factor.

The basic problems, from what we can gather from the report of the royal commission, were to try to recommend some solutions to this age-old problem of providing a system for all the work force in this country. Unfortunately, the commission's recommendation of PURS, from all that we can gather, and particularly from ourselves, is not a workable system. There have been many disagreements with respect to PURS, in particular as it applies to the public sector. The PURS system, as recommended by the royal commission, fails in many categories. We have noted through our brief many of them, but I would like to bring them back to your attention to refresh your memory.

The PURS system will not provide any benefit in the immediate future. In our estimation, we are talking about something that is badly needed now and in the very near future, as opposed to some time in the great beyond. It is a system that would have to be in effect for many years for it to have any benefit, and then we are doubtful about the benefit.

There is also no protection from the inflationary trend, which is also badly needed. I mentioned portability. The portability would only be in the province of Ontario and we feel

that if you are going to have portability, portability should cover more than Ontario. This would require legislative changes federally and may take some persuasion from the provincial government.

Another part we are very concerned about is the options that are contained in the matter of PURS. We are talking now about the options to new employees where they have the right, but are not compelled, to join a contributory plan. They also have the option of opting out of a defined benefit plan, of which we in this group are all concerned because we are in a defined plan, and what effect it would have on these plans. As far as our presentation is concerned, we feel it would have a devastating effect on our present plans. If PURS were accepted, in our opinion the government would be taking a step backwards.

2:20 p.m.

I will get into the effect on the present plans a little bit further when we reach our private plans that are in Toronto, Hamilton and Ottawa, but there are contractual agreements at the present time which include conditions of employment. If PURS were accepted by the government, what effect would this have on these contractual agreements? It is understood, and I see Mr. Bentley is a member of your commission, and I am sure he will agree with the fact that without the younger members in a pension system, without their contributions, a pension plan would suffer.

It is the young money, the young blood that provide a pension system. If, under the recommendations of the royal commission, you allow the opting out of new employees, or the opting out of present employees who are at present enrolled in a defined pension system, you are going to deplete those systems and also you are going to deplete those systems of the young blood.

We appreciate that if you talk to young persons today of 21 to 25 years of age, and even up to 35 years of age, about pensions, they are not quite interested in pensions at that point. So if you are going to provide a pension, you almost have to force it on them. That is what is done at present in the legislation for Ontario when it comes to municipal employees. If they are going to be provided with a pension, it has to be through the OMERS system at the present time, by legislation.

The same thing is happening today, through that legislation, to the private plans, that is, the Hamilton plan, the three Toronto plans and the Ottawa plan. What is happening is that the older people who were in the plan prior to 1968 are dwindling fast so that the number in those plans are becoming smaller and smaller all the time. The same thing would happen if this was allowed to become law and people could opt out, because the present OMERS plan and the superannuation plan would gradually deplete in its membership. Perhaps in the private sector it may work, but in order to provide a system in the public sector, as far as we are concerned it is not at all beneficial. As far as the plans that are now in effect are concerned, as I have said, it would have a devastating effect.

With respect to the Canada pension plan, it is hard for us to understand the attitude of Hon. Frank Miller, the Treasurer of the

province. In his statements to the press and to the public he is sort of threatening veto power with respect to the Canada pension plan if there are any great changes in it. However, we feel that if there is going to be a plan provided for the private sector and the public sector, but particularly the private sector, if there is going to be a plan provided, why not elaborate on the Canada pension plan?

It has all the necessary ingredients to to provide both employer and employee with a benefit plan. It affects all the members of the work force with very few exceptions. It is completely portable; you can work anywhere in the Dominion of Canada and your pension goes right along with you. It has compulsory vesting, which is something the royal commission is suggesting to a degree. It has some inflationary protections inasmuch as it is increased according to the cost of living and so on.

One of the major problems that the Mr. Miller, the Treasurer of Ontario, took exception to was the cost controls. Of course, under the CPP, the cost controls would then be controlled by the government. We firmly believe that with all the expertise in this province and the country in the matter of pension benefits, you should be able to change the structure of the Canada pension plan to make it a more acceptable and workable system for all the members of the work force in this country.

With respect to the CPP as far as the public sector is concerned, and I am talking now about our plans that we put before you, you must keep in mind that the public sector plans are all integrated and, incidentally, are legislated. They are compulsory. We have no alternative but to have to have our plans integrated.

We have very little benefit from the Canada pension plan, and in the very near future when the Canada pension plan grows--I believe at something like 2001--the benefits that we receive from the Canada pension plan will be equal to our deductions. The members of the public sector will receive no benefit whatsoever from Canada pension, although they will be paying into it, but our deductions in our private plans and also the municipal plan in Ontario will be reduced accordingly. One will offset the other. We have nothing to gain by Canada pension plan, but we suggest that the private sector has a lot to gain.

There are many small organizations and small employers, as well as some of the larger ones, who have small pension plans or no pension plans at all, and we agree that it is more or less an obligation on the government's part to provide them. They have provided them to some degree through the Canada pension, but we feel that is not sufficient and that serious consideration should be given to increasing this.

With respect to our plans, I will speak first of the OMERS system. There has been very little in the royal commission report that refers to the OMERS system. I would just like to bring you up to date with our problem with respect to OMERS, in that during the years 1961 and 1962, the government approached all employees of municipal groups.

2:30 p.m.

That approach was made by the then deputy minister, Paul Hickey, who held several meetings with the employee groups. He went to each individual group and talked to them several times. He also had some mass meetings of all the employer-employee groups and, by and large, convinced these members and the employers that this proposed OMERS system was supported by government, would be approved by government and was basically to provide an adequate pension for all municipal employees.

In many instances there were existing plans in municipalities. It meant the members of these existing plans had, by a majority vote, to go into OMERS, or stay in their private plans. The majority of municipalities in Ontario did go into OMERS with the exception of three larger municipalities, Hamilton, Ottawa and Toronto.

This meant the cancellation of these many private plans which were in existence at that time. The employees were very sceptical at that point, but they were convinced not only by Mr. Hickey but by his compadres who went along with him that perhaps this government plan would be a better plan and certainly would have the sanction of the government.

The OMERS plan was legislated in late 1962 and on January 1, 1963, many of the municipalities went into OMERS. The regulations of OMERS were changed to make it mandatory, in 1968, for any new employees of any municipalities who were going to be provided with a pension, to be enrolled in the OMERS system. This is where the separation of some of these private plans in Ottawa, Hamilton and Toronto came about. It means that there are now more people in OMERS in Metropolitan Toronto than there are in the Metropolitan Toronto benefit fund. The same thing applies to Hamilton and Ottawa. What we have now is the majority of municipal people in the OMERS system.

As far as the OMERS system is concerned--and I understand the OMERS people will be speaking to you at the end of this month--it has been built up through an exceptional board of management. It has the expertise behind it, and it is now recognized as one of the finest pension plans in Canada. Although it is a municipal plan, it has been regulated all the way through by legislation. It cannot change anything without royal consent. The OMERS system has been built through the years since 1962 to become a very fine plan.

The royal commission report recommends that the public sector plans be regulated on the same basis as the private sector plans. We do not quite understand why unless it is, as they say, to close the gap between the private sector and the public sector. The public sector for years had been provided by the provincial government with a provincial government plan. Now the royal commission report comes by and says, "Well, it should be put on the same basis as a private sector plan." We are suggesting to you that private sector plana are having enough problems. We do not need to be involved with private sector plans.

As I said, the municipal plans are already regulated in many ways. They are regulated by the government. Everything has to go through an order in council; there is the Municipal Act which provides maximum benefits; there is the Pension Benefits Act which provides maximum benefits. All of this is controlled by the provincial Legislature. Why do we have to go into some other area, such as the private plans, to be controlled, when we are already being controlled by government?

The royal commission report also suggests that the public sector plans should not lead in benefits. I remind you that the public sector plans, and particularly OMERS, are completely funded plans. A completely funded plan has to be paid for. The members of that OMERS system, as well as those of the private plans--these three plans that we are talking about, Hamilton, Ottawa and Toronto, which are basically the same as OMERS--basically pay the same price. So, as far as the public sector is concerned, we are a little bit concerned by that suggestion in the royal commission report that public sector plans not lead in benefits. There has to be a leader in benefits somewhere along the way. If you look through the private sector, there may be other benefits that are superior to those in the public sector, but certainly they are being paid for, particularly in the municipal responsibilities.

The one thing that is important is that in both past and present legislation the legislation prescribes maximum benefits so that the protection, not only for the taxpayers and for the government but also for the employees, is there as well. We do not particularly care for some of the maximums that are in the Pension Benefits Act, the Municipal Act and so on, but we are saddled with them and we accept the provision that there have to be maximums.

One of the main factors, and this is one of Mr. Miller's great concerns, is the cost control. In 1980 in the OMERS system, there were increases for the present retirees to try to give them something to fight the inflationary problem, and only after much debate with the provincial Treasurer was OMERS able to accomplish a four per cent increase, which had not been done for two years.

Again this year, there is also a suggestion of making some increase to the pensions. As you know, OMERS has no cost-of-living provision built in, and it is suggested that this year there should be some improvement for the pensioners. This money also is taken right out of the finances of OMERS, which in the opinion, I believe, of this committee and also the royal commission is excess interest accumulated and should go back to the people whom it is going to help the most, that is, to the present retirees.

2:40 p.m.

We expect to have a problem with the Treasurer of the province showing you that the province of Ontario does have a controlling interest as far as cost is concerned. It is not quite, as the Donna Haley report suggested, control beyond the province's limit. It is not beyond the province's limit, and we suggest to you that it is being controlled. That is the public sector plan.

In essence, the royal commission has suggested that the

so-called gap in benefits between the private and public plans should be closed up. We are not sure really that such a situation exists. We submit that the commission's statistics are very sketchy. We have not found anything that compares whether these people are unionized or whether they are non-union. There are many factors that are not within the statistics of the royal commission report and that makes it very difficult to make a judgement, but I am sure that the government of this province is not suggesting nor would ask the public sector employees to subsidize those in the private sector.

With respect to the members that are here today representing some 16,000 police officers in the province, we have in our legislation certain bargaining rights, legislated through the government, through the Police Act of Ontario. We have certain bargaining rights in the province of Ontario, which include bargaining for pensions. These rights are legislated. The only people that are sitting here today that have not legislated rights as far as pensions are concerned are the Ontario Provincial Police, represented by Mr. Bill Hutton. They are in the public service superannuation plan and they do not have any bargaining rights with respect to pensions, nor do they have any rights of taking it any further.

I also remind you that in Ontario police officers do not have any strike provisions, do not have the right to strike, nor do we want it. We have seen what has happened in other provinces and we like the way things work here. On the other hand, we treasure our right of bargaining and negotiations. It is also legislated that we have compulsory arbitration in the light of not being able to settle and we also cherish this.

As far as pensions are concerned, it has been the experience of this group for many years that when an agreement is reached, particularly when it involves pensions, it is a package deal. We have to give up something in order to get something. In many cases that has happened and it has happened primarily over the last five or six years, except in the case of the larger associations in the larger municipalities that have had existing plans. Toronto's dates back to the 1800s. They have ongoing negotiations in those plans for many years.

Since OMERS started, the pension systems have changed greatly in Ontario for municipal employees. Therefore, it has caused in arbitrations and negotiations a lot more considerations because, naturally, pensions are expensive. In order to provide these expensive benefits, we, as police officers, have taken steps in a package deal to make it more palatable for the taxpayers. This has gone on over the years so that the taxpayers have not really been hurt by the benefits provided, particularly in our group, for police.

The same thing applies in our awards through arbitration. There have been many of them where the municipality has said: "Look, we are politicians and you gentlemen appreciate the fact that we are not going to make any waves in the municipalities. As a result, if the arbitrator gives it to you, fine and dandy. Then it takes it off our shoulders." This is the way it has been and it has

been an up-street battle all the way.

However, we have survived. We do have good pension benefits in the majority of cases. We have 127 municipal police forces in the province. Approximately 85 per cent of all of these people are provided with early retirements and nearly 100 per cent with the full two per cent final average earnings plan, which is available in OMERS. That is including all past service.

It has been an ongoing problem for many years, and now a royal commission comes along and, all of a sudden, makes recommendations that are going to change it. If these recommendations are accepted, and we certainly hope that in many cases they are not, it is going to cause a hardship to these people who have fought and paid their share for some time. We object to these changes which would affect our present system of benefits. We, as police officers, would protect this as far as pension benefits are concerned as we would our families and our employment. We are that serious about pensions.

There is the matter of our retirement that I suggested we would speak on, because I understand that this is a matter that is having some problems as far as the committee is concerned. When the OMERS system was first legislated, there were two normal retirement ages. The normal retirement ages were set for policemen and firemen at the age of 60, and both employer and employee paid an extra percentage. The normal retirement time for everyone else in the municipal communities was aged 65. This was brought about because many of the plans that were in existence in 1961 and 1962 did provide for retirement at the age of 60. Now in many of the forces in the province of Ontario, they have compulsory retirement at the age of 60 in their working agreements.

They also have with OMERS a type three benefit that provides a pension at age 50 provided that they have 30 years of service. This also is an extra cost, both to the employee and employer. But as I said, about 85 per cent of all the employees in Ontario have a similar plan to that.

4:50 p.m.

The big factor of this is that there is no actuarial reduction. The royal commission report suggests that there should be an actuarial reduction for early retirement, except in specific cases. They do not elaborate on "in specific cases" but I am suggesting that police are one of them.

One of the reasons for it is that police have rather an unusual situation in that most service in the police is long service. You start at an early age, and you go right through the service until retirement. If a man is going to retire from the service, it usually carries with it long years of service because there are provisions in the Police Act that you must be under 35 to join a police force. In many police forces, over the past few years, that age limit has dropped to perhaps age 25 unless they have previous police experience. Many of our forces today are hiring people at 20 and 21, so that even at age 60 they have 40 years of service, which is a long service career.

It is also very important as far as early retirement systems are concerned for police in that once a man becomes 50-55, under the current situation as far as the present society is concerned, he is no longer up to being out on the street. With all the civil liberties groups and the way that policing has gone in the last few years, it is very difficult for even the younger people, let alone a person who becomes age 50, 55 and even 60. This is happening today. There are still a number of people of that age out on the streets.

The reason is that in the present setup of police forces there are a minimum of office jobs available today, because, as you know, the financial crunch has placed everybody in a category of trying to do the same job at a lesser cost, so many police forces have hired civilian employees at a much lesser cost than the police who were previously doing it. This means that the inside jobs for these type of people--age 50 to 60--are very minimal. There just are not the jobs available to them on a police force today.

Even the departments are looking for these people to retire because there are no positions for them, knowing full well that they cannot, in common language, hack the street job any longer at that age. As we say, we cannot all be administration. We still have to have some Indians out in the street, as well as the chiefs sitting back in those offices. It makes it very difficult.

The same thing applies with respect to our private plans. They too have no actuarial reductions and they do have provisions for early retirement--that is Ottawa, Hamilton and Metropolitan Toronto. These people, too, are very concerned about what affect this royal commission report would have on them. There is no question in our minds that to go along with some of the recommendations of the royal commission would seriously affect these private plans. They have, for longer than OMERS has been in effect, negotiated their plans to where they are today. Almost all are equal to the OMERS plan in most regards so that, with very few exceptions, they are pretty well on the same plateau as far as pension benefits are concerned in the province.

There has been some suggestion that perhaps the 90 factor should be looked at as opposed to, in OMERS, the type three benefit of age 50, as long as they have 30 years of service. There are other benefits stipulated in the Metro Toronto group where they do have provisions even at 25 years of service with some deductions, of course, but at 30 years of service with no actuarial reduction.

We must consider all these. They do have a bearing, particularly with respect to when you are judging the private sector with the public sector. The same thing applies to these private plans. They have paid for many years, and in some cases, in the early years, paid much more than they are even paying now. There must be some justification for suggesting to you that we take great exception to having our plan changed, or drawn in closer with the private sector, if that is the feeling of the government. We certainly hope it is not.

That is about the extent of the comments. If there are any questions, particularly dealing with the private funds in Toronto and Hamilton and so on, or dealing with police in general, we would be glad to answer them for you.

Mr. Chairman: You have certainly made your position abundantly plain. The message has been loud and clear, at least from my point of view. There may be members of the committee who wish to pursue this or other aspects of the presentation.

Mr. Brandt: One question; I do not know if your group has given any consideration to the volume of capital formation that would accrue on an expansion of the Canada pension plan. The problem that was identified by the royal commission was that too much of that money would be accumulated in government hands, and therefore would not be available to the private sector. The argument follows then that the private sector requires substantial sums of money for the capital needs of the country in the foreseeable future. Do you see that as a problem, or have you recognized that as being any concern?

Mr. Lymer: I see that as a problem myself. We do not believe that when money has been in government hands it has been properly invested, the way we have been dealing with our own pension fund, and particularly how the Ontario municipal employees retirement system has been dealing with the investments in that fund. Those investments, carried out properly, have produced high rates of return, which in turn have allowed OMERS to give increased benefits by way of ad hoc increases to the people on pension and in addition to providing a final-five formula within a very short period of time since the plan was born. It is 12 years. Our concern with the money flowing into government hands is that it is not properly invested.

Mr. Brandt: The problem that has been identified by a number of organizations and identified in the royal commission report is that if that money is in government hands and is used by government for whatever purpose--I am not speaking so much of the return to the pension plan itself, which was the part that you directed your answer towards--but really the concern, and I think it is a very valid one, that Canada, as a relatively young country with enormous requirements in terms of capital demands in the foreseeable future, particularly in the energy field, will require large pools of money.

3 p.m.

If, in fact, you look at the total sum of money that would be available in the context of the Canadian economy, and if you extract from that what will become trillions of dollars--not billions, but trillions--in the foreseeable future, particularly if there is not only a modest expansion of the CPP but something like a doubling of the CPP and the requirements to fund that adequately, if you take a look at that scenario and if government controls that money--and I realize the argument has been forward by my friends opposite that perhaps something could be developed to make available to the private market some of those funds that are accumulated, but I think one of the major concerns of some of us

sitting here on this committee is that if the CPP is in fact expanded, it puts into the hands of government money that can be used perhaps on the social side rather than on the development side of the Canadian economy, where you are creating--

Mr. Mackenzie: No more Syncrudes?

Mr. Brandt: --real wealth, something I could talk to you about some time.

The distribution of unearned wealth is a very easy game, because what happens at that point, as you well know philosophically, is that you are giving people something that hasn't been earned. What I am saying is that in order for the Canadian economy to grow, we have to get some of that money back through pension-pooling dollars to the private market. I wonder if you addressed that kind of concern. Have you looked at the number of dollars that would be accumulated?

Mr. Lymer: I certainly know what has been done up to this point with the Quebec pension plan. That has been properly invested, in the caisses populaires, I believe, to such an extent that I think that particular organization is now the seventh largest financial institution in Canada, second only to the six banks.

They have been investing the QPP moneys in addition to credit union moneys and the equivalent of OMERS as it applies in the province of Quebec and they now have billions and billions of dollars. I am wondering what is going to happen in Ontario when the payments that are made by CPP exceed the amount of contributions that are coming in. Where is the money going to come from to pay for it?

It is our argument that if that money had been properly invested in the first instance then there should be sufficient there to carry on with increased earnings from the fund and the contributions. We wouldn't need at this stage to look to increases in the CPP contributions.

Mr. Chairman: I think what Mr. Brandt is saying--correct me if I am wrong--is that investment of pension funds through the private sector may be more productive in a number of senses, and the performance of the fund may be better than putting those massive amounts of money into government hands, where the appetite is insatiable and the reasons for spending endless.

Have I paraphrased your message well enough?

Mr. Brandt: It is another way of saying it.

Mr. Riddell: It is interesting how one's philosophy changes in a matter of a few days.

Mr. Brandt: Mine changed?

Mr. Riddell: Right.

Mr. Brandt: Not at all.

Mr. Riddell: Remember how you went after me about the use of this money for social services and what not, and now you are suggesting maybe it should have gone into the private sector.

Mr. Brandt: If I might apologize to our guests for a moment. You were speaking specifically about the repayment of those funds and how Ontario was acting in the context of the whole CPP question. That is what I was responding to. I don't want to see that problem enlarged. I think there is a limit to how far that should go.

Mr. Riddell: I am glad we are getting on the same wavelength.

Mr. Brandt: Mr. Chairman, if I still have the floor, with respect to the expansion of the CPP, another problem I have--I am not just playing the role of the devil's advocate because we are looking at that as a viable option in so far as this committee is concerned--is that as a former member of a police commission and as one who has worked closely with your organization I know that all police officers do not necessarily have just one job. On occasion, there are police officers who are involved in other fields of activity in addition to their police work.

Mr. Haggerty: You are not suggesting moonlighting, are you?

Mr. Brandt: I didn't use that term; you did. But whatever term you want to use, what I am getting at is that there may well be a need within even the police organizations for some degree of flexibility with respect to pensions. Not everyone requires the same amount of retirement income. Some of your police officers, for example, have investments they have made over and above their pensions. Do you see a need or do you see any kind of value in having individual choice of the direction in which an officer may wish to go with regard to supplementary benefits, pensions or whatever?

I raise that point because, if the Canada pension plan is too large or if it is expanded to too great a degree, there may not be that flexibility available to the officer in that the money has already been taken out or taken away from him. His alternatives are therefore narrowed just to the CPP and to very little else because he has only so much income to use for pension purposes. Do you have officers who want that degree of flexibility, in other words, individual choice on a voluntary basis?

Mr. Standard: It really is not a matter of choice because if the officer pays into CPP, no matter whether it is off duty or on duty, that is not going to make any difference because his pension in integrated.

Mr. Brandt: You are missing my point. If he pays that much more as a result of the enhancement of the CPP, therefore that money is taken away from him. Perhaps in that individual officer's case, he may wish to buy a duplex or a fourplex or some other form

of investment aside from strictly a straight pension.

But if you expand the CPP to the level suggested by some, additional residual income or those dollars will not be there for him to use for other purposes. I am asking if that bothers you, that perhaps that option has been taken away, that individual choice has been taken away from you or could be taken away from you.

Mr. Garchinski: If I might address that briefly; with the CPP there is a guarantee. With the flexibility, there is no guarantee. That is one of our concerns. That is why we believe there should be compulsory membership in the pension plan. That goes along the same lines as the CPP. That is addressing that. You mentioned the possibility of investments. There is no guarantee with investments where there is, we suggest, with the expansion of the CPP.

Mr. Brandt: There is also free choice with the investments. Do you not want that choice at some point in your career?

Mr. Garchinski: If we had free choice with membership in a pension plan, we are concerned that probably the majority of our members and with every other municipal employee, the majority of them would not have a pension at age 60 or 65.

Mr. Lymer: I do not know where you are getting the idea that police officers have two jobs in the province. They do not. What does happen is that maybe they retire after 30 years of service when they may be 55 years of age and they can no longer carry on in active police work, working three shifts and out there in all weathers.

Then they find they cannot live on their pensions and they have to take some other kind of job. There is nobody I know of that has secondary employment. As a matter of fact, our legislation, the Police Act, prohibits secondary employment. We are looking at that because the situation has become so bad in Toronto that police officers cannot afford houses any more. We have members who are paying $1,200 a month mortgage. On their salaries, they just cannot do it.

We do have what we call in some stations "pay duties" whereby an employer is doing some construction and the police officer has to be there to control traffic. There is a limited amount of those available but that is generally in the downtown area. The traffic men have some pay duties for funerals but they are very few and far between.

Mr. Brandt: I would have to dispute in part what you are saying. I happen to know, without using names, of one police officer who has an upholstery business. I know of another police officer who is in a cement business, driveways and that kind of thing.

Mr. Mackenzie: There are the exceptions.

Mr. Brandt: Out of a 100-man police force, I have

mentioned two specifically that I know of. There are a number of police officers who do have other jobs. They have other forms of income. Only in the context of getting to the point where I am asking if they would prefer some degree of flexibility in their investment plan, if they have the flexibility of the second job in some instances, perhaps they do not want to put all their eggs in the CPP basket.

If it gets that large, if they have no other option, then they are locked into that as being the main vehicle, plus the other plans you have, of course. They do not have the option of investing that money in some other alternative.

3:10 p.m.

Mr. Lymer: I would have to answer your question to say that, no, we would not like to see it made flexible because the offices out there would need whatever money they can. They would forego it. It has to be made compulsory. Later on when they reach the age of 45 or 50 years of age, they realize the mistakes that they would have made and some have made where it had been a flexible situation. It would have to be compulsory.

Mr. Chairman: Mr. Brandt, I think we have to focus on the average police officer, not the atypical one who may have other business activities. When we talk in general terms I think we have to talk about the average policeman, not someone who may be in a different position.

I am trying to get, if I may, Mr. Standard, the message here. I was not sure that you were advocating an enriched Canada pension plan. Are you suggesting that? I know that you are not enamoured with the provincial universal retirement system. Mr. Brandt is talking about appropriating more of your disposable income in order to enrich the Canada pension plan that you have told us is integrated in any event. I am just wondering what the ultimate effect of all that is going to be in terms of benefiting the people you represent. Are you advocating an enriched Canada pension plan?

Mr. Lymer: No, I think where Mr. Standard is trying to come from is that, instead of going to PURS to provide the type of pension that should be provided to people in the private sector, the Canada pension plan should be expanded to give them the pension they need to live on in their retirement ages and leave our fund alone. If you go to PURS, you are going to destroy our fund.

Mr. Chairman: What you are saying is that--and correct me if I am wrong--if you have to go at all, then do not go the PURS route. Go the Canada pension plan route because you already have a system in place.

Mr. Lymer: That is right.

Mr. Chairman: And it is going to hit the same target as the PURS proposal would hit. But all through here you say that is for the people, you are trying to help the people in that particular group but, as far as we are concerned--and I am speaking from your point of view--you are questioning how you will benefit

from that. I gather you do not want your plan tampered with.

Mr. Standard: That is right. We have benefits in our plan. As I say they are integrated but it really does not benefit us much in the CPP. But we would like to see--the vehicle is already there. It has already been established. It is very difficult at times to understand why you would go elsewhere when you have that vehicle.

To answer a part with respect to the government controlling money in Canada pension and everything else, we had that experience in the Ontario municipal employees retirement system. When we first started, all the money that went into OMERS was controlled by this provincial government in the way of 40-year debentures. It was soon found, as the result of the experience with OMERS, that in a very few years this was not workable, that it was hurting the fund and had to be changed.

Mr. Chairman: I gather again and it has been indicated to our committee that OMERS has performed pretty well in the past couple of years because you have had a more aggressive investment policy and managing your own fund.

Mr. Standard: Completely out of the government's hands.

Mr. Riddell: But does the Royal Commission on the Status of Pensions in Ontario not recognize the fact that there were good pension plans in effect now and that, if PURS was adopted, it was never meant to replace a pension plan that is in place and adequate? Was that not one of the recommendations?

Mr. Bentley: I think that is the interpretation you could place on the recommendations of the royal commission because in one of their recommendations they did provide for the opportunity for pension plans to opt out providing that it met certain criteria. I cannot remember--

Mr. Riddell: Would this not satisfy the concerns of the group before us?

Mr. Haggerty: May I ask one question?

Mr. Mackenzie: (Inaudible) actually in the legislation because, while that is the recommendation of the royal commission, we don't know what the Tories are going to bring in here.

Mr. Riddell: Yes, but they are basing their decisions too on the recommendations of the royal commission.

Mr. Haggerty: Getting down to your question there, as I understand what you have said there, it is that OMERS now has money provided for investment purposes. Is that to the private sector?

Mr. Standard: Yes.

Mr. Haggerty: It is going to the private sector now?

Mr. Standard: Yes.

Mr. Haggerty: We have our retirement savings plan; that goes to the private sector. How much more capital are we looking for to prime the private sector? Then the question is, what have they been doing with it that we can see any benefits that have accrued in the private sector?

Our economy is down now and if I look at the Canada pension plan much of that comes back to the province of Ontario and they have a right to invest it in any category they want to. If they want to invest it in the private sector they can, but they too take in the Canada pension money from that and are using it now to perhaps add to the private sector in the sense it is going to the Ontario Development Corporation, it is going to the Eastern Ontario Development Corporation, it is going to the Northern Ontario Development Corporation.

We have the federal government--no doubt about it, funds are coming from the Canada pension that is going into the Canada Development Corporation. Then that goes into Petrocan, into the oil industry throughout Canada, perhaps going for exploration and that. So I imagine much of that is coming now from funding from the Canada pension plan. But it does give the government an extra area of revenue or source of revenue or money to be borrowed at a reasonable interest rate that they can let it out to the private sector or to the government sector to encourage development in this particular area.

I think of the member for Sarnia (Mr. Brandt) there; I am sure that funds from the Canada pension plan have gone in to develop that complex in the Sarnia area. It has been of benefit to all Canadians.

Mr. Standard: I think it all devolves really on the investment committee and what faith you have in an investment committee. We have some of the best people in this part of the country involved in the OMERS investment committee, and they have done a terrific job.

Mr. Haggerty: Do you have members sitting on this board or commission who handle investments?

Mr. Standard: Sitting on the board? Yes, we have input.

Mr. Haggerty: You do have input into it?

Mr. Standard: Yes, we have input. As a result they have an investment committee of top people.

Mr. Haggerty: But that is the same as the Canadian National Railways, for example; they have huge pension funds. They have representatives from their unions or from their associations--

Mr. Standard: Their pension plan is in better shape--

Mr. Haggerty: That is right--to see that it is invested in the right areas, that it is going to get some fair return on their investments.

But if I look at the intent of PURS here, it leaves the impression that there is no pension money or funding now going to the private sector for investment purposes. I imagine there is quite a bit of it now--the deeper we get into this--that is available to the private sector for investment purposes with fair, reasonable returns to the persons funding it in the first place, that is the pension process.

Mr. Standard: That is why we take exception to some of the royal commission report in that there isn't the information available in it to make a good judgement with respect to PURS.

Mr. Riddell: Hasn't it just been within relatively recent times that OMERS has been investing in the private sector?

Mr. Standard: They have come down from the 25 per cent that they were allowed to invest, they now have 100 per cent of contributions--

Mr. Riddell: Within the last two or three years.

Mr. Standard: Within the last three years, I believe it is. Three years, Mr. Bentley?

Mr. Bentley: I think it has been going for three years.

Mr. Standard: Yes, I am pretty sure.

Mr. Bentley: I don't recall the exact date.

Mr. Standard: We had 75 per cent for a couple of years. We started out with 25 per cent and then 75 per cent and now 100 per cent. It has worked out very well.

Mr. Bentley: I haven't a clue to be able to estimate 10 years down the road how they are going to end up.

Mr. Williams: Mr. Chairman, recommendation 98, to which Mr. Standard has expressed strong objection, is: "If PURS is adopted, no employee should be compelled to join a contributory plan as a term or condition of employment."

I may have been proceeding along on a false assumption, I do not know, but I assume just by virtue of the fact that that particular recommendation is dealt with under a different section of the royal commission considerations--under the employment pension plans, the private sector plans--and not dealt with specifically in the public sector plans, that--although I must concede it is not so qualified--it applied specifically to the private pension plans, or in the alternative that any public sector plans that did have the mandatory contributory feature such as yours would be grandfathered and be permitted to continue in that fashion.

I thought either way you would be protected from that particular recommendation. Perhaps Mr. Bentley could comment on that to see whether or not those assumptions are incorrect.

3:20 p.m.

Mr. Bentley: It is unclear to me and has been unclear from the beginning just what they were driving at. It seemed to me that if PURS were adopted, then the employee would have the right to select, even if you had a pension plan. However, when you get to recommendation 107, it seems to defeat that by saying the whole of the pension plan may opt out.

Now it depends on what you are going to put into it to set as criteria for opting out with respect to a plan. Are you going to say, for instance, one thing: it is mandatory that the employees of that particular shall join the pension plan? You couldn't leave it voluntary and meet with the requirements of PURS, if it were a voluntary employment pension plan, and permit that one to opt out, because there could be a number of employees who would suggest to their employer, "To heck with it; I am not going to join that extra plan."

So I think you come back to the same consideration, that for an opting out and if you have PURS you pretty well have to have a plan, where you as an employer establish it, that must be mandatory for all employees to join as a condition of employment. I cannot see any other interpretation, John, in the whole thing.

It is unclear to me, but if you follow the context, if you are going to go the PURS route and you are going to be permitting opting out, then you would have to say to all plans that are voluntary now for employees to join, "We are changing the ground rules." If you are going to opt out, you must say to all of your employees, "It is a condition of employment that you join our plan." I think that would be one of the criteria that you would have to build into it for an opting-out provision.

I would go on with a number of others too but I think that is a principle one that you seem to be talking about now.

Mr. Standard: You don't disagree with what we are saying?

Mr. Bentley: Not in the context of what you are saying.

Mr. Standard: I am glad we do not disagree.

Mr. Bentley: If you are going to have a mandatory system, it must be mandatory for all employees, whether you go the PURS route or whatever other route you go.

Mr. Standard: That is right. In order to make the system work.

Mr. Bentley: If you are looking for pensions for as many people as you can cover, that is what you have to do.

Mr. Lymer: If I may, maybe I could just touch base with some of the things that Mr. Standard has mentioned in relation to how OMERS has affected these other three plans that we have, which is Metro Toronto, Hamilton and Ottawa.

In 1968 it became compulsory for all members joining the police force in Metro Toronto or any of the other municipal forces to go into OMERS; so that as a result from July 1, 1968, the Metropolitan Toronto police benefit fund became a dead fund. It then started to have a declining active members. Everyone had to go into OMERS.

In 1970 that fund had a surplus of $10 million. At December 31, 1978, there was a current deficiency of $2.5 million, which had to be paid between the members and the commission. It had to be shared as a result of an arbitration award.

We believe that deficiency would never have been there had we continued with a live membership and had all the members joining the police force being compelled to come into our benefit fund. We have only been able to provide one increase in pension to our pensioners since 1970; that was in 1975. At present we have pensioners who are out on a pension of $3,300 a year after 40 years' service with the police force. That is not a pension that you can live on. Thankfully it is supplemented by the old age pension. Some of them don't have the CPP, it was not in being at that time.

We can foresee that maybe if PURS comes into being it will do exactly the same thing to the Ontario municipal employees retirement system that OMERS did to Metro. We are seriously considering at this time going into OMERS because we have got a declining membership. We have an open-ended plan that's a defined-benefit plan. We don't know what it's going to cost in the future, and it will probably be a lot cheaper for us as members and cheaper for the commission to pay a certain amount for us to go into OMERS. I think there's a cost of about $13 million that would have to be put up if we were to wind our plan up and go into OMERS.

The fear we have with PURS is that if we did that--and even if we have to protect our members who are now in OMERS--if we went into OMERS and PURS came into being we would be out of the frying pan and back into the fire.

Mr. Chairman: If I can make an editorial comment, I wouldn't lie awake at night worrying about that. I may be speaking for myself, and maybe I'm expressing some other personal views as well--I don't know. But I certainly appreciate the message, and I would hate to see that happen.

Further questions? Thank you very much.

Mr. Lymer: There is just one observation I would like to make. On page 16 of that brief there is an incorrect statement. I think it's the third paragraph down in item four. It says that the chairman of the benefit fund itself is selected by the provincial government. He is not: he is selected by the Metropolitan Toronto government, so that's an incorrect statement.

Mr. Chairman: The record stands corrected, then.

Thank you very much, Mr. Standard and gentlemen. We have

appreciated your visitation this afternoon, and it has been very helpful and informative.

We have as the next delegation the Federation of Engineering and Scientific Associations: Mr. Allan Brookes, president; Mr. Amir Shalaby, chairman of salary and benefits; and Mr. C. M. Bailey, second vice-president.

The brief is exhibit 149. That is in your latest binder. Which one of you is going to act as spokesman, or are you going to both speak?

Mr. Shalaby: We will both participate. I will give the opening statement, and Mr. Bailey and I will respond afterwards. Mr. Allan Brookes is unable to be here today; so just the two of us will present the brief.

In opening I would like to thank the committee for giving us the opportunity to submit this brief and make this presentation. The Federation of Engineering and Scientific Associations is an organization representing professional employees in engineering, scientific and related professional endeavours. We represent 20 associations based in Ontario, Saskatchewan, Alberta and New Brunswick. Most of our groups are based in Ontario. We are also affiliated with a sister federation in the province of Quebec that represents five other associations.

Our membership totals 7,000 professional employees, and we feel that in the concerns and issues we raise in our points on pension reform we perhaps reflect the concerns of many other professions that are not represented and haven't had the opportunity to make a presentation to this committee.

The intent of our brief is to highlight our concerns on pension reform, to explain the needs of our members in pensions and to put forward the preferences that we have in filling these needs. We would also comment on behalf of our Ontario groups on some of the recommendations made in the Haley report and in your own October 1981 report.

3:30 p.m.

Our member is typically a mobile professional paid about twice the average industrial wage. We feel that this group of employees is making a vital contribution to the economy of this province and that encouraging the mobility of such employees is advantageous both to the individual and to the entire economy in maintaining the technological lead it enjoys.

All our members are covered by employment pension plans. They are typically a defined-benefit variety, contributory plans with benefits based on the final year's average or the best year's average, typically the best five years' average salary.

Only the public sector plans enjoy any form of indexing, and the public and parapublic plans enjoy reciprocal transfer agreements. We mention examples of people who are covered by the OMERS plans, the public service superannuation fund and the Ontario

Hydro plans; they come into some reciprocal transfer agreements between these plans. Many of the private sector plans--in fact, all of them--lack this kind of privilege.

We see that perhaps most of the deficiencies which affect our members most in the current pension system originate in the concept of regarding pensions as a reward for long service rather than as a deferred wage. We are very pleased that both the Haley commission and your own committee have adopted the deferred-wages concept in viewing pensions.

The two most critical deficiencies that our members suffer relate to the portability of pensions and the inflation protection of the purchasing value of their earned pensions--in particular, the vested pensions or the locked-in pensions. These deficiencies prompted the federation to formulate the policy statement. It was adopted by the policy-making body of this federation and is attached here as an appendix to this submission. It also benefits us to appear here today and present our views.

The two examples we refer to in the brief of the possible deficiencies that the present pension system can inflict on some of our members, particularly the career earnings plans, result in very low post-retirement incomes. One of our groups has estimated that a member joining their pension plan from graduation to retirement may end up with something like 18 per cent of his final year's salary earnings as a post-retirement income.

Another example demonstrates the deficiencies in portability provisions. One of our companies involved in high technology or social development finds that its own pension fund could be totally financed or totally funded by employee contributions. The young professionals join the company and leave after a short duration, and the company finds itself not needing maturability for the pension plan.

We prefer the overhaul of the private pension system to fulfil our pension needs to the expansion or creation of another public pension plan. The private pension plans are preferable because they are adequately funded and subject to legal restrictions that ensure their adequate funding. They are subject to the collective bargaining process and therefore can be tailored to suit our needs, the needs of a particular employee group. They invest evenly in all sectors of the economy, and we feel that for the levels of salaries that professional employees earn a public plan probably would not be sufficient to match the pre-retirement and post-retirement incomes of professionals. Therefore, the private plans are our preferred route.

We also support raising registered retirement saving plan limits. A $3,500 limit was established some years ago, and we find it inadequate to accommodate any difference between the 7 per cent and 7.5 per cent rate of contribution to the employment plans. It doesn't leave very much room for any additional contributions to their RRSPs.

The concerns we have with expanding the Canada pension plan revolve around the intergenerational transfer that is due to the

partial funding of the plan. We feel that if the Canada pension plan were expanded it could discourage employers from making provisions for private pension plans, which we feel are a central vehicle for fulfilling our needs. We also do not favour the establishment of PURS, and I will expand on the reasons we do not favour PURS in commenting on the Haley report recommendations.

We support many of the Haley report recommendations: for example, the application of a realistic rate of return on return contributions; the desire for uniformity in legislation across Canada--I think that's a desirable feature; earlier vesting; the endorsing of the deferred wages concept; disclosure; employee representation, and survivor benefits. All of these are desirable recommendations, which we support. We are also pleased that the need for portability and inflation protection were identified as central issues in the pension debate.

We are, however, disappointed that the choice of a vehicle to implement portability and inflation protection was limited to PURS and to the inflation tax credit. In our opinion, PURS may limit mobility within Ontario. We are not sure whether it could be portable outside Ontario. The low contribution level of the average industrial wage will probably result in 10 per cent of our members' income in the post-retirement period. It will take a large number of years to materialize, and in the meanwhile people may not enjoy the benefits of PURS. We also feel that it may add complications to the post-retirement system in Ontario: it will become a four-tier retirement system, and maybe that's a bit too complicated.

The inflation tax credit will not help our members very much in protecting their pensions from inflation. We perceive inflation protection as an earned right rather than a privilege based on need. It should not be a need-based tax credit; it should be a right, and old pensions should be inflation-protected.

We are also disappointed that the Haley recommendations criticize the public plans for the form of indexing they have rather than encourage the private plans to approach that type of indexing or to have some form of indexing. We are, therefore, generally disappointed in the inflation protection and the portability provisions in the recommendations of the Haley report.

We commend this committee's October 1981 report. We found it strongly in favour of reform of private pension plans. We support the recommendations. In general we agree with them. We have minor comments on two or three recommendations, which we have listed in section 5, and they are only to reinforce the intent of the recommendations and to remove any potential ambiguities in the recommendations of this committee.

We think the vesting and locking-in provisions should definitely be tied to augmentation and excess interest utilization. Vested and locked-in pensions are meaningless if they are not protected against inflation, and we feel that these recommendations should be carried in one group of recommendations rather than in separate ones. We feel we would also make a more strongly worded recommendation, number 16, on accepting the principle of augmenting pensions. Maybe that could be more strongly worded to ensure some

obligation from the the employers to augment their payable pensions.

Recommendation 7 addresses the split of the cost of a vested benefit between the employee and the employer. We feel that this should be worded to say that at least half of the vested pension would be borne by the employer. We do not wish to see an employee leaving a pension plan and having to contribute a little more on his departure. I am not sure whether this could occur or not but under some actuarial assumptions maybe some employees would not have contributed half their vested pension.

In closing, I would like to thank the committee again for this opportunity. I would like to emphasize that the private pension system is where we see reform most needed. We feel that if Canada pension plan and PURS were given attention it might detract from the energy and effort needed to revitalize and overhaul the private system. There is an element of choice; we feel that if two or three areas were reformed, one area could be delegated to the back burner. It could also discourage our employers from improving the pension plans.

3:40 p.m.

Mr. Chairman: Mr. Shalaby, I wonder if we could clear up that one point that you made. I think you are referring to the interim report and there was some ambiguity. Is that correct?

Mr. Shalaby: Ambiguity?

Mr. Chairman: In a recommendation in terms of an employee having to contribute something. I am wondering if Mr. Bentley could check that.

Mr. Shalaby: Recommendation 7.

Mr. Chairman: It certainly wasn't my understanding that there would have to be any supplemtary contribution by an employee but--

Mr. Shalaby: We don't know whether that could occur but could it occur under certain length of service and certain age group under certain actuarial assumptions of rates of retirement and so on? Could an employee join at, say the age of 50, and leave at the age of 55 and find that he has not bought half of his own pension? I don't know whether that could occur or not. There may be circumstances--

Mr. Bentley: If he's bought less than half with his own contributions, he is entitled to the benefit. Whether two thirds of that has been paid by the employer and one third by the employee, what he is entitled to is the benefit. So there would be no problem in that particular area.

In the event, as you mentioned earlier in your address, in many pension plans now employees' contributions are buying their full benefit up until age 45, 50, 55; so that the full benefit is being bought in effect by employees' contributions with interest accumulation.

Mr. Shalaby: That's correct.

Mr. Bentley: So all this recommendation is really saying is that in the event that the employee terminates you determine the value of his benefit and not more than 50 per cent of that value should be paid for by the employee.

Mr. Shalaby: It is not worded to say not more than 50 per cent; it says half and half. We would like it worded to be not more than--

Mr. Bentley: Maybe we loused up the writing, Mr. Chairman, but I think the intent was quite clear as I read it back to myself.

Mr. Chairman: Of course, we were involved in the authorship; so it is abundantly plain to us what our intention was. Unfortunately, it was not as clear to you, apparently; so we will review that again to make it clear.

Mr. Shalaby: We agree that the intent is there, but maybe we can polish the words up to---

Mr. Chairman: I don't want anybody lying awake at night, worrying about it. Were there questions, Mr. Brandt?

Mr. Brandt: The report that you have submitted to us indicates some discontent with the current level of RRSPs at $3,500. You don't make a recommendation in that respect. Do you have a number or a methodology of keeping that in line with inflation or whatever? Do you have anything specific to (inaudible)?

Mr. Shalaby: We only go as far as saying to raise the limit and then tie it to inflation in some fashion. Your question is, to what level should we raise it?

Mr. Brandt: Yes. You don't make a specific recommendation.

Mr. Shalaby: We do not make a specific recommendation.

Mr. Brandt: But you are saying from the time of 1976, when the $3,500 was originally set, you would like it to be somewhat in line with the experience of inflation since 1976, and that it be targeted in some way to an inflation level from this point on. Is that the sort of thing you are talking about?

Mr. Shalaby: That's correct.

Mr. Bailey: I think we'd like to see something of the order of at least $5,000, in comparison with the $3,500 limit, and thereafter indexed to inflation. I think that was the number we discussed internally, but obviously--

Mr. Shalaby: It will work out that way. Inflation would probably be 40 or 50 per cent since that time.

Mr. Brandt: On a second point, Mr. Chairman: I don't

think you mentioned this in your verbal comments but it is in the recommendations under appendix B, where you talk about a combination 85 factor. That's the first time that we've had any submission that I can recall that uses that particular number as a minimum number. Number 8, I guess it is: "Pension plan should allow for early retirement, with no reduction in pensions where the sum of age and contribution to the plan equals 85." Could you give us some rationale for how you arrived at that number?

Mr. Shalaby: The 35 years of service in one plan would ensure maximum level of benefits. If somebody contributes 35 years in several employment plans, and retires at 65 there is no penalty. Even at 60 most of them have no penalty, but if you start retiring before the age of 60 the penalties become severe. Some plans go to 12, 17, 18 per cent reduction in benefits because of the early retirement age.

Mr. Bailey: Ideally, of course, in pension plans it doesn't matter at all how old you are. It is just the number of years you contributed to the actuarial calculation. This allows the formula of 85, which a number of employers use. Several of our groups have a formula of 85 for unreduced pension on early retirement, which basically weighs off a fixed retirement age of 65, reduces it in cases where you have a full 35 years and makes a step towards what is actuarially reasonable.

Obviously you can't simply base the number of years of contribution to the plan regardless of age, because one would like to see everybody retire at age 65 regardless of what the total is on the basis of the formula 85. So we suggest both 65 or age and service equals 85.

Mr. Brandt: A combination. Thank you.

Mr. Haggerty: I just want to follow up on Mr. Brandt's question there. I believe this is raised under other issues, the limit on the RRSP. There is an indication that you want to raise it from what--$3,500 to $5,000? Is this not an area the federal Minister of Finance in his latest budget is trying to plug? I shouldn't call it a loophole, but the idea that is if you have a high income you could use this for tax deferment or deferred taxes, in a sense to say, you can evade taxes for a number of years but still have substantial investments over a period of 20 or 30 years. Is this the area?

I have a letter, I think from Manufacturers Life, from somebody who bought into a retirement program or policy at a time when you could go and borrow money on that plan, say at 5.5 or six per cent, under this latest equity policy the minister has come out with. Now if a person wanted to borrow in that particular area, he is penalized because that is going to be plugged so that you have to borrow at the same interest rate as on the open market, 12 or 14 per cent. We lose that privilege, so to speak.

I know a number of persons who have bought into a savings or retirement life insurance policy that has been a benefit to them due to the high interest rates. They have been able to borrow on this particular policy.

I am just wondering if you increase this, looking at the other side of the scale, is it not going to cause some problems with the government now that will create a tax shortage? They are not getting the revenue from the general tax source they used to get when they brought in this retirement savings plan. The question is, if too many people move in this direction and it means they are going to be looking for other tax sources, then they will hit the average wage earner making $18,000. He will be asked to contribute more taxes while they are building up sufficient funds in the registered retirement savings plans.

Are there any difficulties in this area if you go too far in broadening it out, say, if you go to $5,000?

Mr. Shalaby: No. The Haley report lays out several sources of retirement income and one of these is personal savings rather than registered retirement savings plans. This is not available to most of our professions, because there is no room to contribute to retirement savings plans. So it should not be discounted as one source of retirement income for highly paid professionals.

3:50 p.m.

Mr. Haggerty: Is there anything in there that you are supposed to be included in on this too?

Mr. Bailey: The Minister of Finance in his last budget touched on (inaudible). We haven't touched on that question at all. It is a matter for the minister. We are talking about the ability to invest in RRSPs. Typically, professionals are mobile people. You have circumstances where you may have a very good company pension plan but a fellow who comes in at age 50 is not going to contribute to that plan very long and the benefit he is going to get from it will be entirely inadequate. The usual route is, for example, he may be at a very high level of earnings because this is the reason why he is taking this new job; so he has an opportunity to try in a very short period of time to build up a bit of a nest-egg through RRSPs.

The limit when it came in on RRSPs for people who have pension plans was initially $1,500. It went to $2,500, I think in 1973. In 1976, I think, it went to $3,500. We now have had no change in that limit for six years. For some of our groups who have company pension plans at a seven or 7.5 per cent deduction rate and who are making $40,000 a year, which is a reasonable average salary for professional engineers and scientists across Canada, there is very little room left. His pension deductions from the company are $3,000 or $3,200, and he's going to put $300 a year into an RRSP? He has no opportunity at all in a tax-protected way, in the same way that all other pension contributions are tax-protected, to build up a bit of provision for his retirement. That is the problem we identified in recommending the increase in the RRSP limit.

As far as it being a burden on the tax system, I don't think it would be any more of a burden than it was in 1976 when the level was raised to $3,500. All the other parts of the federal tax system

are indexed and we think the RRSP limit should be as well. So the burden and the opportunity is afforded people to invest in their own retirement by building up, in effect, a private pension. There is no more of a burden than any other kind of pension investment. It isn't a loophole like an income averaging annuity contract or something else.

Mr. Chairman: It is not a loophole. The government keeps changing the rules.

Mr. Bailey: An incentive then.

Mr. Riddell: Our task, of course, is to consider what pension plan or plans would be best for working people in general. You people are looking at it more from the standpoint of professional people. If I correctly understood what you said, you do not favour PURS.

Mr. Bailey: Right.

Mr. Riddell: You do not favour an enrichment of the Canada pension plan.

Mr. Bailey: Right.

Mr. Riddell: You don't believe we should be going the public route. Does one necessarily conclude from that then, that you do not believe pension plans should be mandatory?

Mr. Bailey: No. I should correct our views. We aren't completely opposed to an expansion of CPP or establishment of PURS. We believe the present pension system has proved to be inadequate and in that context of wanting a change, improvements in the system, our preference is for improving the private pension system. There is a distinction there we think is important.

Mr. Riddell: But do we leave that to the discretion of the private sector or is it something we have to mandate?

Mr. Bailey: I don't think the private sector would improve the plans on its own any further than it has. It is a cost to employers, which, because of the way inflation has gone, has been reduced for employers. I don't think any employer would pay it willingly; it is something that is going to have to be mandated, particularly things like portability and inflation indexing.

The only way this will become widespread is if it is mandated or incentives are put in, for example, pension systems that did meet these requirements were not deductible as a cost of business; or, if an employer did not have plans that meet these requirements, the employees could opt for PURS at a four or five per cent deduction rate from both sides, rather than two per cent, which would have a little meat on it--either through an incentive system, reward and punishment, or through a mandating system to have both inflation protection and better portability.

Mr. Riddell: If we go through the public sector route, what do you see as the concerns of the working poor, the low-income

people? We are told in this committee by those who discount the PURS program that it would be of no value to the people, because low-income people cannot afford to contribute towards a plan. They have to spend whatever income they have on food and accommodation. There is very little left over to sink into a plan. Now if we go the private sector route you are suggesting, how do we accommodate that problem?

Mr. Bailey: Our view has been that accommodation of OAS, CPP and, in some cases, Gains and some of the other supplementary pensions provide a floor for the less well-off, both working and nonworking. We don't really have any mandate to speak to improvements in that area, other than recognizing there are deficiencies.

Our concern was that in a rush towards a PURS or expansion of CPP, the urgent need we have among employed professionals, people at quasi-managerial supervisory levels--and we are not just talking about a few thousand people; there are probably as many people involved in those working categories as there are, for example, in the whole of the Canadian Labour Congress or the Ontario Federation of Labour. It includes a very large number of people who work in our economy. And these people are, when they retire, ending up with pensions--it is a fraud really. They have worked for 40 years, sometimes for one employer, and they end up with a pension, and they find the only worthwhile pensions to have are CPP and OAS.

So this is the problem we are bringing to the attention of the committee. I am not suggesting you should not do anything about the problem of pensions for people who have not been in the work force during much of their life, or have worked at the minimum level, but we do not have any answers. We are trying to say, in your concern over that area, don't forget about reform of the private pension system. Do not put it on the back burner because everybody is keen on bringing in a PURS, or wants to see the Canada pension plan expanded. Because from our point of view, we have ended up with very little in the way of gain--something, but not all that much.

Mr. Chairman: Mr. Bentley had a point he wanted to raise as a matter of clarification. Maybe we could do that now.

Mr. Bentley: In your section five, "Comments on the Committee's Recommendations," in the second comment with respect to recommendations 4, 5 and 9, and with respect to recommendation 16, I am not sure whether you are referring to augmentation for active employees.

In the recommendation of the select committee, we were talking about retireds and deferreds; in other words, people who had left employment at retirement age, or had terminated employment from a particular employer and were entitled under the vesting rules to a deferred vested benefit. Augmentation in the recommendations of the select committee was directed towards those particular situations.

Are you saying in your comments on recommendations 4, 5, 9 and 16 that active employees should receive the same kind of

consideration with respect to augmentation of the benefits year by year as they progress through with their particular employer and remain with the particular employer?

Mr. Shalaby: That is correct.

Mr. Bentley: That is what I thought you were saying, but I wanted to be sure.

Mr. Shalaby: That is right. The augmentation of pensions to people who have retired is much more common than augmentation of vested pensions of a 40-year-old who has moved to another company and left a vested pension somewhere.

4 p.m.

Mr. Bentley: So in effect you are saying that if you earn a benefit, we will say for argument's sake, $50 a year, you would like to see that augmented in the same manner as the excess interest principle would apply to retireds or to deferred benefits.

Mr. Shalaby: That is correct.

Mr. Bentley: That is all I wanted to say. I thought that is what you meant, but it was unclear to me.

Mr. Bailey: We have spelled it out a little more in detail in section 4.1, where we state specifically that we support improved vesting only if the vesting is tied to improvement inflation protection on the same basis and to the same extent as pensions in the course of payment.

Otherwise, you end up with a situation of a fellow who has worked for a company. He has left at 35. He has worked for 10 years there and this company may go beyond the existing regulations so that he has his pension locked in. That money is effectively gone. His own contributions are effectively gone at the current inflation rates. Thirty years later, at 10 per cent per year when he starts drawing a pension, the money is a pittance from that vested pension.

Mr. Bentley: I guess I am confused again, because that was dealt with in the recommendation of the select committee, saying that with respect to not only retireds but also those who had terminated employment they were entitled to a deferred vested benefit payable to them at some time in the future. This should be considered under the augmentation principle.

Mr. Bailey: That is right.

Mr. Bentley: What threw me was I thought that your comments indicated that, if an individual remained employed with that employer, his benefit that accrued year by year for service should be augmented in the same way as if he had terminated employment, was entitled to deferred vested benefits.

Mr. Bailey: Our recommendation there is for a final average--

Mr. Bentley: So you are talking in the same principle, the same wavelength as the recommendation of the select committee dealing with retireds and deferred vestents; that is, people who have terminated employment and are entitled to a deferred vested benefit payable some time in the future. Okay, I have that clear. I was not sure of that point.

Mr. Shalaby: Could I comment on mandating the forms rather than leaving them voluntary? We recognize that many of the recommendations do encourage portability or make portability a bit easier. Things like earlier vesting, things of this nature make portability possible.

We are speaking more of reciprocal transfer agreements between one pension plan and another. We note that you have identified the life insurance business as a successful operator of this type of scheme. We feel that the public service superannuation system has also operated this scheme successfully and we feel it should be widespread to many other industries. It is a reciprocal transfer agreements portion that we would like also added to the portability.

Mr. Bentley: Yes, I am aware that is what you have suggested in here. All I would suggest to you as you know the myriad of characteristics in the private pension system to bring them together, it is a little bit different with the public service plans because they are substantially similar. But you can go from a flat benefit plan to a career average plan, to a final pay plan and the determination of the value of the amount, the pension benefit credit, to be transferred becomes a rather difficult calculation.

If you are going the full portability route through reciprocal plans for agreements between employers, you could have up to 15,000, and all the permutations of 15,000 different reciprocal agreements in Canada; so it almost looks as if you would have to establish the principles under law if that is what you are going to--

Mr. Shalaby: That is right--

Mr. Bentley: Is that what you are advocating, that the principle should be established under law?

Mr. Shalaby: That is correct.

Mr. Bentley: In other words, we would have to set the numbers to calculate the value of the benefit to be transferred? And that would have to be acceptable both to the transferring employer and the employer to whom the money is being transferred?

Mr. Shalaby: That is right, the going in and the coming out.

Mr. Bentley: Could I just ask one more question? Do you find anything wrong with the principle of allowing the transfer out to be at the employee's election to roll that credit over to a registered retirement savings plan as an easier solution, the RRSP noncommutable but under the employee's direction for investment

purposes or to whatever trust or insurance company he wishes to have hold the fund? Have you any objection to that?

Mr. Shalaby: That may result in a reduced number of years' credit in his new employment if the final benefit is a function of the number of years.

Mr. Bentley: Nevertheless, you do have the accumulation of the capital sum that is transferred out, and he could leave from six different employers throughout his working life and in each case there would be a transfer of a capital sum from the employer to a noncommutable RRSP under the employee's direction and that would continue to grow as long as his investments were reasonable, and so on.

Mr. Shalaby: That is a bit more risky than a defined benefit. Going to an employer with a defined benefit I think is preferable.

Mr. Bentley: Possibly, always providing that the numbers that would be established to enable the transfers to be made provided some reasonable degree of equity, both with respect to the employee who was causing the transfer to be made, the employees who continue to be members of the pension plan from which the transfer is made, and the employees of the plan to which the transfer is going into. There has to be some degree of equity in that area. I am not going into detail, but it is a point that you have to be concerned about.

Mr. Bailey: If I could just address a couple of points you raised: On your recommendation eight, yes, we certainly saw that as a good first step, but I think we favour, rather than being able to transfer 50 per cent of the employee's locked-in benefit, make that 100 per cent. We could not see any logic in the 50 per cent unless you considered the employer's contribution back as a kind of nondeferred earnings, the reward part.

If you consider the employee's contribution to a pension plan to be, in fact, not deferred wages but actual wages that had been lent back, compulsorily taxed, and it is the employer's contribution that is deferred wages, then there is no logical reason why it should not be 100 per cent of the benefit that should be transferrable to a noncommutable RRSP.

Mr. Shalaby: I would we point out that most employees would do that, and I think this provision is here to protect against insolvency of the plans if many people opt out immediately.

Mr. Bentley: That is one of the problems we would have to face, that you can have a partially funded plan and, if you had a heavy draw on that plan, it could act to the detriment of the remaining employees so you have to be concerned with it.

Mr. Bailey: Should the plan not be properly funded, then?

Mr. Bentley: It can be properly funded, provisionally funded under the terms of the Pension Benefits Act, in other words, they are amortizing the unfunded liabilities but, if you still have

a liability of 50 per cent greater than the assets of the plan, and you have a number of draws on the plan and you allow the full transfer out, then that could act as a detriment on the remaining employees.

Mr. Bailey: You still have a problem here with the question of equity in allowing only 50 per cent of pension benefit to be portable. There is a problem of equity as far as the employee goes there. He is only taking a 50 per cent vested benefit. We did address in the brief at the top of page five the question of the practicalities of portability when there are large numbers of pension plans.

Let us face it, most of the major pension plans in this province are final years' average type of plans. In a sense, they are fairly similar. Not all of them have inflation indexing, only the public service ones do, but you can draw a reasonable comparison. I know, because the federal reciprocal transfer agreements are drawn up between indexed and nonindexed pensions and they do manage to make a comparison of benefits.

Obviously, the committee is faced with the choice between mandating all employers into a system, and I recognize the committee may have some concerns about that approach, or leaving it up to the employers to do it voluntarily. We would suggest, respectfully, that this is a form of spitting into the wind. It is not likely to have much in the way of results. So we would suggest that the committee direct some attention or ask--what is the name of that organization that administers pensions in the province?

Mr. Bentley: The Pension Commission of Ontario.

Mr. Bailey: Perhaps you should ask the pension commission to examine the possibility of incentives through the tax system or otherwise or, for example, through PURS. We suggested earlier in the brief that, if pensions are portable, then PURS does not happen but, for employers whose pensions are not up to scratch, they can still run their pension schemes with flat benefits if they want to stay with that, but then employees have the right to opt, instead of the company pension plan, for PURS at a four or five per cent contribution rate from both sides.

In this kind of system you both have the flexibility (inaudible) system and yet there is something that will encourage portability among employers. I think you will find even the insurance companies will drop their portability system once the present drive from group pensions, the heat is off, so to speak.

Mr. Bentley: I just wanted to bring to your attention that the so-called portability, and I know that for a fact because I am working very closely with a number of unions in developing reciprocal agreements between multi-employer plans, and even there the problems of transferring moneys or benefits is pretty complex and most of those are flat benefit, defined contribution plans.

Mr. Bailey: We recognize the practical problems. We expect that, for pension plans that cover at least half of the employees in the province, maybe as many as three quarters, there

would not be any problems or the problems would be comparatively minor. As for the remaining quarter, there would be problems and, therefore, so we do not end up with allowing the large group of plans for a small proportion of people to block progress in this area, that is why we suggest some looking at the question of incentives.

Mr. Bentley: I just wanted to clear myself and hope that when you had prepared these recommendations you had considered this, and I know that you have, and that satisfies me, Mr. Chairman.

Mr. Brandt: My question is on the issue of portability as well. When we had the private pension industry before this particular committee, they have indicated to us on a number of occasions that they are improving the whole area of portability and they are working out plans for this kind of portability between companies and so forth.

You represent 20 organizations and about 7,000 employees, and I imagine there are a number of different plans within your group. At this time, have you noticed any appreciable improvement in the question of portability in your member companies in any way, shape or form that you could indicate to us because, as you pointed out, the question of whether it is going to be mandated or whether it will be voluntary is a question that is going to be a very real one before this committee and we have to look at that very seriously. If it is going to be voluntary, we have to see some real action and some real activity on the part of the private sector.

My feeling is, and I think the majority of this committee feels, that there is quite a strong probability that we will have to go to some form of mandatory portability to achieve that particular objective. What has your experience been in the last while?

Mr. Shalaby: There are two parts to that. The public plans are to some degree portable between one fund and another. The other side to that question is that many of the pension reform activities are waiting for the outcome of this committee so they are even holding on until they see what happens. Nothing much has happened in the last year or two, anticipating the changes coming up.

Mr. Brandt: You have not been offered portability then?

Mr. Bailey: No employer for the last two or three years of any of our groups has made any move towards improved portability. The improved portability that we have seen, for example, between Ontario Hydro and the federal plan, occurred about 1973 or 1974 and was as a result of a request from the society at Atomic Energy of Canada Limited to the Ontario Hydro society which brought it up to their management; in a similar area, of course, there is portability between OMERS and, I guess, Ontario Hydro.

For example, a group at Canadian General Electric, a typical private sector, large company, sought to have portability between their company pension plan and the federal plan, because there were people transferring back from AECL to CGE and its nuclear industry,

and they were told that it was not up to the employer, that this was a question of the insurer, and the insurer while the plan was in actuarial deficit had a veto on any changes, and they did not even have to ask him to know that he would exercise that veto. The employer said, "I am sorry, there is nothing I can do about that." That was the response.

So we consider that portability is quite practical and possible, but there is no real incentive. An employer, especially if he is not paying the salaries he might to more senior employees, and is concerned about losing them, let us say to the oil industry out west, he is not interested in making it easier for people to leave.

Mr. Shalaby: The other form of limited portability that we observed is between companies and subsidiaries, for example, Control Data Corporation, in Ottawa, Mississauga and Minneapolis in the US. There is a form of portability of pension benefits there. That is again a limited form.

Mr. Bentley: Keep in mind that portability has always been permissive under the Pension Benefits Act for at least 12 to 15 years; it has been permissive for the employer to establish reciprocal agreements. We have never objected to any where we are satisfied that the employee is being protected in the event of a transfer of the pension credit or his rights in any way. It is not mandatory, but it has always been permissive.

Mr. Shalaby: But I think establishing some of the rules for calculating the value of a benefit may speed up the complexity of the reciprocal agreement. The most often mentioned reason for not negotiating a reciprocal agreement is that it is not worth it. The effort involved is enormous in agreeing to what the value of the benefit is, so that if you have a small number of employees going from one employer to another it is not worth it. If we make that negotiation of a transfer agreement easier, I think we can get rid of that objection.

Mr. Bailey: Isn't there a legal concept of who gains that is often used to determine and look into the rights and wrongs of an issue? When you look at portability, it is a social benefit in the public interest because employees gain because they get adequate pensions when they change jobs; employers do not. Their employees leave, it is made easier for them to leave, or they draw higher pensions.

For the insurance industry, again they have to provide a higher rate of return; you cannot cushion your pension plan for the fact that there is a fairly high rate of premature withdrawals. I suggest that speaks volumes to the question of whether you are going to have to manage it or not.

Mr. Brandt: Mr. Bentley, on the question of weighting the value of the particular pension at the point that it was being made for, is that feasible in your view? Can it be done?

Mr. Bentley: I think it can be done. I have always been convinced that it can be done, provided you are willing to listen

to the screaming of the people, the transferee or the transferor. Somebody is going to scream no matter what levels you set it at, because he will say, "It materially affects my plan." It can be done, and it can be done on a reasonably equitable basis, in my view, and I think it is something that the Pension Commission of Ontario, as well as other jurisdictions in Canada, have considered. Saskatchewan has looked at this approach already. I cannot say I am totally enamoured of their approach, but they have gone a short way towards resolving some of the issues by setting certain standards now in valuing the benefits.

Once we set them, whatever these may be, in computing the value of the pension benefit credit to be transferred, we are going to be wrong in the view of a great number of people and we will be right in the view of a few people. We will have those people who will say, "Look, there aren't enough bucks being transferred in my view," and we will have other people saying we are transferring too many bucks. That is the problem we are going to face.

Mr. Chairman: Are there further questions? If not, Mr. Shalaby and Mr. Bailey, I want to thank you very much for taking the time to appear before us today. I think the exchange has been a very useful one, and we appreciate the contribution you have made to our study of this matter.

The committee adjourned at 4:20 p.m.

PR-10

SELECT COMMITTEE ON PENSIONS

REVIEW

THURSDAY, JANUARY 14, 1982

Morning sitting

SELECT COMMITTEE ON PENSIONS

CHAIRMAN: Taylor, J. A. (Prince Edward-Lennox PC)
Brandt, A. S. (Sarnia PC)
Cousens, D. (York Centre PC)
Cureatz, S. L.; Deputy Speaker (Durham East PC)
Gillies, P. A. (Brantford PC)
Haggerty, R. (Erie L)
Jones, T. (Mississauga North PC)
Mackenzie, R. W. (Hamilton East NDP)
McClellan, R. A. (Bellwoods NDP)
Riddell, J. K. (Huron-Middlesex L)
Van Horne, R. G. (London North L)

Clerk: White, G.

Researcher: O'Mara, Dr. J., Legislative Research Service

Consultant: Bentley, W., Superintendent of Pensions, Pension Commission of Ontario

Witnesses:
LaRochelle, A., Director, Canadian Institute of Religion and Gerontology

From INDEX NOW:
Campbell, A.
Nancarrow, A.

LEGISLATURE OF ONTARIO

SELECT COMMITTEE ON PENSIONS

Thursday, January 14, 1982

The committee met at 10:11 a.m. in room No. 151.

REVIEW
(continued)

Mr. Chairman: I call the meeting to order.

We had Mr. David Stouffer with us the other day, the senior budget adviser with the Ministry of Treasury and Economics, and I have now heard from him in regard to the Caisse de dépôt. Maybe I could read his short memorandum, which addresses some of the queries that were put to the committee. It states:

"Further to the discussion at the select committee session on January 7, 1982, I looked into the proportion of the holdings of the Quebec Caisse de dépôt in government securities. As of the end of 1980, the caisse had invested $6,145,000,000 in bonds issued or guaranteed by the province of Quebec. This does not include investments in municipal bonds not guaranteed by the province. The total fund invested was $11,508,000,000. Thus, about 53 per cent was invested in provincial bonds."

That is that information, and I gather he is putting together some additional material we requested, and I hope that will be forthcoming shortly.

Mr. Brandt: Mr. Chairman, what was the estimate for the Canada pension plan? The total amount available--was it in the range of $30 billion? I am trying to relate the two figures.

Mr. Chairman: On a Canada-wide basis?

Mr. Brandt: Yes. That number has been mentioned in the past, but I can't recall what it was.

Mr. Chairman I would not venture a guess. I don't know whether Mr. Bentley could.

Mr. Bentley: Neither would I venture. I'd have to go and look it up.

Mr. Brandt: I was trying to relate it either on a per capita basis or to the size of Quebec to see how it was performing in terms of total available funds with the CPP. I don't know that it is that far out, necessarily, but I just can't recall that other figure.

Mr. Bentley: I can't remember.

Mr. Mackenzie: Is the inference in those figures, Mr. Chairman, that, out of the $11.5 billion, $6 billion is in government bonds, and the balance is invested in the private sector?

Mr. Chairman: I would think so. If you look at it, roughly half that has been invested in the private sector. I assume that is the case. The clerk points out to me, and rightly so, that it does not include investment in municipal bonds not guaranteed by the province. However, the figure is that 53 per cent is invested in provincial bonds and the balance elsewhere. So I would surmise that a great deal of the balance would be in the private sector.

Mr. Brandt: There was $14.3 billion in the CPP as of 1978, and an estimate of $25 billion by 1980.

Mr. Bentley: I just looked at it not too long ago, and I can't recall.

Mr. Chairman: That is the figure I had in mind, though I whispered to Mr. Bentley a figure that was beyond that.

We have with us this morning the Canadian Institute of Religion and Gerontology. Mr. A. LaRochelle is here. Would you like to come forward, Mr. LaRochelle. We have distributed your submission. The members have that in front of them at present. You can deal with it in any way you wish. You can read it, touch on highlights, engage in discussion or whatever you wish.

Mr. Haggerty: Mr. Chairman, perhaps it should be read. It is rather a poor copy.

Mr. Chairman: Then I am sure Mr. LaRochelle will want to be sure his message comes through loudly and clearly.

Mr. LaRochelle: Mr. Chairman, I will be happy to read it for the benefit of the members. First, let me thank you for the opportunity to appear before this committee, one that our institute views as very important at this time in Ontario.

The CIRG, if I can refer to it by the initials rather than read out the name, is an independent body that was founded about 10 years ago to bring an increased awareness to the churches and the religions of the concerns of the elderly. We are not part of the churches or the Canadian Council of Churches. We are an independent body made up of members of different faiths and religions. I want to make it clear at the beginning that we are not representing any church or particular faith.

We have studied the royal commission report and we support in principle all the recommendations of the report with no exceptions. There are, however, areas where we would urge quick action by this committee to move the government into legislation and immediate attention. The most important, we believe, is flexibility in allowing people to retire later than age 65 and that all pensions and other benefits accommodate this option. We agree that age 65 is a reasonable point to restrict pensions so they do not occur at all different younger ages, but it is realistic to allow more workers to work beyond that age and to allow pensions to be deferred to actual retirement age at a specific time up to age 70.

Also, the provincial universal retirement system, a mandatory

retirement system for all workers in Ontario, is an overdue measure and should be implemented at the earliest. This will reduce future increases for those who depend solely on the Canada pension and other benefits. It recognizes many will not be able to make private pension plans and will have to look to provincial pensions for income in retirement years. The creation of a central pension agency should proceed at the earliest so that this new pension plan can be implemented. We also support the funding recommendations which appear to be based on sound financial grounds and will protect the future needs of the workers who will need these pensions on retirement.

The report is most commendable and deserves quick attention and action by your committee on all the recommendations. We urge you to move at great speed to seek legislation required to place the changes into action. Of particular note is the recommendation that the future increases and benefits be given only to those most in need and not to all in a universal manner and that the benefits be financial and not in increased services.

In summary, the two main points are: (1) allow persons to work later than 65, which reduces those on the pensions and increases those contributing into the plans, and (2) create the new PURS plan to ensure that all Ontarians do have a pension. For reference purposes, we refer to the example of Switzerland in The Foreign Experience with Income Maintenance for the Elderly, a study by the Economic Council of Canada, which illustrates two important points: (1) an increase in contribution rates is acceptable to workers, and (2) workers rejected lower retirement age, at age 60, for instance.

In addition to that, I have a second page that we have added since we did this brief several months ago. We have been following the proceedings of your committee, and on my second page we refer first to Mr. Haggerty's concerns about the disabled that I notice he raised just last week. We would like to refer to recommendation 40 in the federal report Obstacles, which illustrates that the Quebec pension plan does provide for disabled employees an amount significantly higher than the federal plan. We see no reason why the PURS plan cannot also provide such a benefit for Ontarians.

<u>10:20 p.m.</u>

With regard to Mr. Stouffer's comment last week on the Canada pension plan not providing access to the information as to the fund, investment and performance where PURS does, it is our opinion this is a reason to have a provincial plan because it is crucial that people have access to the information so that there is wider awareness of the contributors to the plan. We are pleased to note Mr. Williams's remarks about the Quebec pension plan, which has been operating for quite some time, and we suggest Ontario can benefit a great deal from that experience, specifically the disabled benefits.

I have a personal concern as a younger person. Those of us who work part-time and who cannot be in a private pension plan, how do we prepare for retirement? If there is no PURS, how do I manage to provide for a pension if I have no access to one? Increasing

numbers of people working part-time, temporary, casual jobs make this a real concern. I do not agree that time allows us to wait for the private sector to provide pensions for the future, and I urge you to recommend, therefore, that PURS be created, that it be portable and in harmony with the other provincial pensions as these are created, and that, in the short term, you recommend increases in supplements, such as Gains and GIS, to aid the elderly who are at present existing on inadequate pensions, because they are not able to survive, as we are all aware.

I really question why we should worry about other provinces having pension plans at this point because the reality is that the largest number of elderly in Canada are here in Ontario, not in the other provinces; so it is important for you to urge Ontario to give leadership and work to create a new provincial plan in harmony with other pensions, and demonstrate real concern for the fast-growing numbers of elderly here in our society.

As well, we certainly cannot wait for the federal government to act, since it is clear it has not given any sign of acting. In fact, it appears to be reducing benefits. If you look at the November budget, the changes in the RRSP-related areas, this will reduce the numbers who will even plan for retirement. This alone will create more on supplementary benefits and will cost us all more in the long term. Ontario has an opportunity here to be an innovator and to correct the wrongs being done by others to our older population, which is growing.

That completes my presentation. I would like to say, though, that the institute views with great alarm the actions of the federal government on retirement savings and has expressed its support for the protests that are being issued by the Canadian pensioners concerned and other pensioners' groups, because we view this as a very serious step backward.

Mr. Chairman: Thank you, Mr. LaRochelle. On that point of federal representation, could you enlarge on the size of your membership, the types of persons or organizations involved with your organization? I am trying to measure in some way the potential your group would have in terms of impressing upon, not only us but also the people in Ottawa, that maybe they are not doing the right things or that we are doing the right things.

Mr. LaRochelle: Well, the institute is made up of people from all the provinces and the territories. We had a national--

Mr. Chairman: Do you have an organization in each province, a separate chapter in each province?

Mr. LaRochelle: Not officially in terms of office space. We only have one office here in Toronto manned full-time. But we do have people who are active in their own communities in the provinces, all of whom were here in November.

We had a conference prior to the North American meeting of the Canadian Association on Gerontology, which was held just up the street here at one of the schools. It was called Spiritual Wellbeing of the Elderly, and it brought together most of the

people from the organization and other organizations.

A lot of our people are active in other groups like Canadian Pensioners Concerned Inc. or the National Pensioners and Senior Citizens Federation.

Mr. Chairman: Do you have a separate membership?

Mr. LaRochelle: Yes, we have a separate membership, but some of those people are active in the other organizations. The greatest majority of them are active in their churches, and some of them are clergy, but they are not representing the churches in any official manner. It is felt we must be independent so that we can have a voice to be able to criticize the churches rather than represent them. The feeling is that the churches really have not addressed their concerns as much as they should have.

Mr. Chairman: So your membership is composed of people from all walks of life and, I presume, all age groups?

Mr. LaRochelle: Yes. There are people younger than myself.

Mr. Chairman: Do you have a membership fee or how do you operate financially? It must cost something.

Mr. LaRochelle: We have a newsletter that is published monthly and that is usually how we get our members. People usually want to see the newsletter so that, if the newsletter is ordered, a membership is given. It is $10 a year.

Mr. Van Horne: We are just wondering about the breadth of definition of gerontology. Is that an appropriate--

Mr. Chairman: No. I do not think so. I am just trying to focus a little more sharply on your organization and what it is trying to accomplish. As we all get older, we of course all become more interested in older people and, I guess, gerontology. But it is a pretty broad term, as Mr. Van Horne is pointing out, and I guess there is the medical aspect of it as well as the social and--

Mr. LaRochelle: Gerontology is the scientific term for the ageing process. The term is deemed to be more appropriate than just referring to the elderly, because gerontology is ageing from the point of birth and that is the area we are concerned with, the person from birth to death, not just in the later years.

Mr. Van Horne: I was interested in your response to the chairman. You indicated there were people younger than yourself. I think that is what you said so I was wondering how broad that definition of ageing is but I guess in the fullest sense it is from the day you are born; you are involved with gerontology.

Mr. Chairman: Once you are born, you start to die.

Mr. LaRochelle: You start ageing immediately.

Mr. Chairman: Do you have a membership?

Mr. LaRochelle: The membership is several thousand. I could not tell you immediately. I do not know, but I can tell you that through the newsletter we inform people in different parts of the country what is happening in the other parts of the country. We also use the newsletter to urge people on to certain activities.

For instance, in the federal situation, we are urging our membership to protest strongly to the federal government from their various regions of the country so that the government will see that it is not an isolated area, that there is a concern right across the nation.

Mr. Chairman: I was going to, if I could, there was one thing you said that I caught and either you are not clear on it or I am not clear on it. You mentioned in connection with the provincial universal retirement system, and I am looking now at the second last paragraph: "The new PURS plan to assure all Ontarians do have a pension to look to...."

Mr. LaRochelle: Yes.

Mr. Chairman: It was my impression that the PURS program would target on those Ontarians in the work force as opposed to all Ontarians. I was wondering if that was your impression as well and, if it was, how would you focus on Ontarians such as housewives or homemakers who are not in the work force?

Mr. LaRochelle: That is a whole separate problem. We have taken a stand previously with the federal government and we feel that some effort should be made to bring people in on a voluntary basis. Whether they do it on their own contribution basis or whether they do it through their spouse, that is a matter for some debate but--

Mr. Chairman: You support covering the housewives or homemakers under the Canada pension plan. Are you suggesting that or am I putting words in your mouth?

Mr. LaRochelle: If the plan is universal, that means everybody; so I think it is inherent in the definition that it applies to everybody.

Mr. Chairman: Again, the Canada pension plan does not apply to everyone, and I gather the structuring of PURS would not apply to everyone.

10:30 a.m.

Mr. LaRochelle: We do not view the Canada pension plan as perfect. That is why we are supporting a provincial pension plan. If we thought the Canada pension plan was adequate--

Mr. Chairman: Are you suggesting it provides the element of perfection that the Canada plan does not?

Mr. LaRochelle: It goes a good deal further in the direction we would like to see government go. We do not feel the federal government can be relied upon to take the proper moves. We

think it is up to you here in the province to lead the way in this area.

Mr. Riddell: Apart from the exclusion of such people as homemakers, one of the concerns we have heard expressed about the PURS program is that it will affect the low-income wage earner inasmuch as they are not going to be able to make their contributions towards such a plan, being that they have to use that money for more essential purposes such as buying food and providing themselves with shelter. What are your comments on this?

Mr. LaRochelle: I do not see that as being a problem. If the plan is universal, everyone who is working would automatically be in the plan including temporary, casual, part-time people. That is a concern I have because that is a situation I am in.

Mr. Riddell: But you are not concerned that they could not afford to make those contributions?

Mr. LaRochelle: No. I do not think that is a valid criticism, in my opinion.

Mr. Riddell: It is a concern we have had expressed time and time again by those people who do not feel that the PURS program is the--

Mr. Mackenzie: It is a concern that the Ontario Treasurer thinks is valid. It is one of their specific criticism of PURS.

Mr. LaRochelle: I realize that, but we do not agree with it. We do not accept it.

Mr. Brandt: I was going to pursue the question on PURS as well. I wondered how your organization came to a determination on that. This may have been covered. But in what fashion did you go through research with respect to PURS, or did you organization come to a conclusion that you wanted to lend your support to that particular program? I raise that, because you are one of the few groups that has come before us indicating any kind of support for PURS.

Mr. LaRochelle: We had a wide-ranging discussion at the executive level on this with people from the different sectors, people from the west and people from the other provinces. There was a concern that--some of the provinces like Saskatchewan did take an action in mandating portability in the province. Manitoba now has this voluntary entry plan and there are other plans that are being supposedly considered.

Rather than the argument that the Canada pension plan is the answer, we view that the provinces are going to have to take more of a role than the federal government. Therefore, rather than all the provinces urging the federal government to do something, we think the provinces should be willing to take the role and to take the responsibility and act.

Therefore, based on what the royal commission said, based on its reasons for why it said that, we agree with them. We made a

presentation to them when they were holding their hearings. We followed their hearings; so I am well aware of the arguments that led them to develop to that conclusion which we agree with. I am frankly surprised at the number of groups who do not support the plan and who are attacking it. It is rather surprising, in my view.

Mr. Brandt: In your brief, you failed to mention or make any comment with respect to an expansion of the CPP as one vehicle or one method of perhaps overcoming some of the problems that relate to pensions. Had you looked at that as well in your discussions?

Mr. LaRochelle: There were a few people who felt that was the way to go rather than provincial plans. But bear in mind all the federal government has done has had a national conference on pensions. They really have not developed anything that we can see for the long term that will address the concern.

In fact, there is an overriding concern by the majority of our members that the federal government will try to reduce its role because of the increasing number of people involved and the increasing costs. When they are looking more and more to reduce their commitments, it is obvious that is one area where they are going to have to reduce costs if they want to go in that direction.

That seems to be the thrust today. The federal government, as you well know, is trying to reduce its financial commitments to you right now in cost-sharing programs. This could develop even more in this area. That is why we are concerned about it. That is why we feel the provincial plan is preferable.

Mr. Brandt: With the numbers of people you deal with--you mention some thousands across the country--does your organization identify the surviving female as being the one who perhaps requires the greatest assistance in terms of help to bring them at or above the poverty line? Have you had any input from your people with respect to that or do you identify any other group that we should be looking at that is suffering today?

Mr. LaRochelle: No. We agree the group that is suffering the most today is the single, elderly female, normally, who did not have the opportunity to contribute to pension plans or who has been left with an insufficient pension by their spouses. We agree that is the crucial area today and that there should be an immediate commitment of funding through the supplements to bring those people up to at least the poverty line.

We view with alarm the fact the federal government has made a lot of promises in that area but has not delivered on them. Therefore, we agree that is the crucial area that has to be dealt with right now. We get that feedback constantly from across the land. It is a concern in all areas.

Mr. Brandt: Does your organization have any difficulty that you are aware of in the supplementary programs to CPP like the guaranteed annual income system or the guaranteed income supplement as being a vehicle that could be used to overcome those problems? There are those who have argued that CPP expansion is perhaps the

best way to do it, to bring those income levels up.

Others have suggested those supplementary plans might be used. In fact, it was part of the recommendation of the interim report of this committee that we look at those supplementary methods of bringing those income levels up to an acceptable level. Have your people identified any problems with respect to those other programs? Could they be enhanced, increased or improved in some way?

Mr. LaRochelle: The view is they should be a temporary measure. They can be used in the short term, in the transition period. But that should not be continued forever. First, the problem with it is the fact the costs are going to be unbearable, if you look at the future projections. The potential is very severe. The growing numbers--based on the supplement--that number is growing faster than any other.

Therefore, there is going to be a tremendous burden in the future. That should be only in the transition period until we get to something better. That is why we think PURS is something better. Eventually you should scrap all these things and go to something completely different. But naturally in the transition, you cannot just stop the world while you make the changes. You have to live with that in the interim but I do not think that should be considered as forever and a day.

Mr. Brandt: Do you get any strong input from your membership with respect to those programs outside of CPP or other pension plans where they are identified or looked upon with some stigma as though they are a social welfare program, and they would prefer another vehicle to deliver the money which would perhaps not carry with it the appearance of it being social welfare in whatever form?

Mr. LaRochelle: That is a rather different question. There are those people who feel we should have a social insurance tax above and beyond the taxes we already have. You can make a very good argument for that. But at the same time, that is going to create a whole other set of problems. Whether you view pensions as welfare or not, that is a point of view we would not share because pensions should be viewed more as a person's earnings.

Mr. Brandt: Some who have made observations on guaranteed income supplements or Gains programs look at those programs as a form of social welfare as opposed to a pension, which they look upon as being a right and something that is not a social welfare program. I was saying the opposite of what you are saying with respect--

10:40 a.m.

Mr. LaRochelle: But the reality is that, no matter what term you want to call it, we have to have the mechanism, because the reality is that people have not had the opportunity, people we have to be concerned with now who do not have adequate pensions. There has to be some mechanism to assist them; whether you call it welfare or whether you call it something else I do not really see

that it's important.

Mr. Brandt: It's not a problem, then, is what you are saying.

Mr. LaRochelle: No.

Mr. Brandt: That's really what I wanted to know.

Mr. Williams: Mr. LaRochelle, you indicate in your brief that the most important consideration of the institute is with regard to the flexibility that you feel should be allowed with regard to working beyond the age of 65. As you know, the commission is more or less silent on that point. They felt it was a matter outside the pension area. They did indicate, or make the comment, that if the age is set at about 65 and, as a result, pensions accrue fully before actual retirement, the pensions should be actuarially increased accordingly. You have no objection to that, of course.

I think they're probably right that it is not primarily a pension matter. It's on the periphery of pensions, and it's important. I think this issue has been addressed in other forms within this building, primarily in the Legislature. I know that not one but, I think, two members of the Conservative caucus have brought forward private bills recommending that any mandatory aspects of retirement at 65 be waived and the age be increased, and I am certainly one who has argued very strongly in favour of that as well. I think it's just another contribution to destroying the work ethic by taking that right away from people, in effect.

In fact, just recently I did of survey in my riding, and the response in support of extending or making optional whether a person retired or not at 65 was just overwhelming. I just couldn't believe the response. I think it is indicative of the fact that by and large most people feel they can see the merit, so long as people are in good health and have the will and desire, in not prohibiting them from exercising a fundamental personal right of being able to work if they see fit.

I know that some people in other quarters have argued vigorously against it, although I truly fail to see the logic of their arguments. But certainly I agree it is an important issue, and while the private bills that have been brought forward have either been voted down by a majority or blocked, whatever the case, I am sure this will be pursued and that eventually your point of view will prevail, because I think it's a fundamentally important issue. I hope the day does come when that right is restored fully. I agree it is a very important issue, and I'm glad you brought it forward. I don't think any other group before us has stressed the importance of it as your particular group has here today.

Mr. LaRochelle: On that point, we criticized the royal commission in our submission to the other committee for not taking a stronger stand. The standing committee on resources development had hearings on the human rights bill. That was, we felt, rather a flaw, because the commission tried to keep a hands-off attitude.

Mr. Williams: Well, we have to accept the reasons they have given for it, although I think there is an indication in the report, the way I interpreted their comments, that they were trying to be as objective as possible. I detected a sense of support for its being optional, but they obviously felt that they didn't want to get involved in that issue and that it should be resolved elsewhere. I hope it is soon.

I don't know whether you have any other comment other than being critical of them for backing off on that issue.

Mr. LaRochelle: Only that we hope the government does not use that as a vehicle for avoiding the issue, because I do recall the minister saying in the House many times that we are waiting for this royal commission report. This was an answer that was given many times in response to questions, and when the report came out it failed to deal with the issue. So I hope the government does not use that as an excuse to avoid the issue.

I must say I am rather concerned that the code as adopted does not make any change in that area. The rights are extended in the code except for employment, so what in effect has happened is that you have reinforced that. So in effect you haven't dealt with the issue.

Mr. Williams: I think they didn't make any specific change in the code; but again, I think the door was left open for the possibility of it to occur, and I am still hopeful--

Mr. LaRochelle: I beg to differ with you. I think the code frankly reinforces the fact of mandatory retirement at 65, which I think you are going to have problems with, because when the federal charter of rights is given royal assent you may well have legal cases that will argue that your code violates the federal code, and you may have some very severe legal problems with that as a provincial Legislature. That's what I view as a very serious problem. It's going to be more of a problem, because more of these people will go to court to fight it.

Mr. Williams: Maybe you're right, but personally I'm on your side.

Mr. LaRochelle: I want to say, Mr. Williams, that I was very glad to see your contribution last week in the minutes of this committee where you pointed out the Quebec pension plan, because the Quebec pension plan operates as a separate provincial plan, as you said. I also was pleased that you raised it because the Quebec pension plan deals with the area Mr. Haggerty was concerned about, disability pensions, in a much better way than the federal plan does. If you will refer to recommendation 40 in the federal report, Obstacles, 39 and 40 both deal with that area. Therefore, I'm glad to see that you recommended a harder look at what is going on there, because certainly if they can operate a plan why can't you do it here? I agree with your argument.

Mr. Chairman: Are you finished, Mr. Williams?

Mr. Williams: Yes.

Mr. Mackenzie: I really want to try to get a handle on the extent to which we should be taking a look at the PURS program or whether it's a discussion basis only or whether there was any research into it. And I ask this simply because, as I think Mr. Brandt pointed out, barring two investment association groups who obviously have an axe to grind, you are the first and only group that has come here in support of PURS. You are making the case for some quick action for some of the people you represent--

Mr. Williams: Just to correct the record, Mr. Chairman: I think the group before us as recently as yesterday supported PURS, and--

Mr. Mackenzie: That's what I just said, if you would listen and let me finish, Mr. Williams.

Mr. Williams: I took you to say that no other group had; that they were the first group to come before us. If that's wrong, I stand corrected.

Mr. Mackenzie: The reason I raised these points with you specifically is that most of the groups that are concerned with the problems of older people and of disadvantaged people, and certainly most of the concerned pensioners' groups, are not favourable to the PURS approach. The PURS approach, if you are aware of it and if you have been monitoring our sessions, won't provide a full pension for 47 years, so there's an immediate and urgent need and a need that is going to last for one heck of a lot of years.

10:50 a.m.

The PURS system, using not my criticisms of it but the government's own criticisms, is going to adversely affect the lower-income people who have to establish such a plan. It's going to require, in effect, low-wage people to prefund what they're now getting without the specific funding in it in terms of the guaranteed annual income system or the guaranteed income supplement payments they will receive.

Two people can receive an entirely different amount if the PURS system is set up, one substantially more or less than the other depending on the individual, because there's a requirement also for some decision, which many of these people won't have in terms of the investment they'll make. So you could have two people retire down the road--if we ever got to the end of the 47 years--and one would be making one heck of a lot more than the next person. And that is the whole question you are going to have of fairness in the system.

There are so many of these questions. The very question of the extent of the coverage you're indicating your people want is very much questioned in the PURS system as against the Canada pension plan, which is universal and covers more people than I think you will see covered with PURS--that may or may not be a question mark--but which has some floors and limits on it and which is already in place as against a system that's not.

You indicate in your brief that you have been monitoring the committee's hearings. All these points have been made and made by people other than my colleague and myself, who have felt this for some time, including almost all the groups that deal in assisting people. That's why I am really wondering about the extent to which your group has taken a look at the quid pro quo, if you like.

Mr. LaRochelle: Our response to that would be that one of the faults of CPP is that it's universal in that a lot of people who receive it do not need to receive it, and that's why I said in--

Mr. McClellan: What percentage? Do you have some data that would give us an idea of what percentage receive CPP unnecessarily?

Mr. LaRochelle: No, but I think you would agree that there are some very high-income people, obviously.

Mr. Mackenzie: A more important argument, though, Mr. LaRochelle, might be the fact that right now, even here in this province, one of the better-off provinces, 54 per cent of all the people on pension qualify for and require GIS and GAINS; in other words, to barely eke out a living they have to have that.

There would be one heck of a large group that wouldn't be living in the lap of luxury over and above that; so you're dealing with a very small number of people, and I think an easier way would be the proper reforms of the income tax structure to take it away from those who may not need it.

But the point is that you have a tremendous number of people in this province, by far the vast majority, who are not in the position you are talking about and who desperately have to have what some of us do feel has a little bit of a welfare connotation, the additional payments through those two plans, just to barely survive.

Mr. LaRochelle: Then do you not agree with me that we should perhaps remove the benefit from those small numbers who do not need it and give it to the larger number who do need it?

Mr. Mackenzie: We would have no difficulty with that at all, but that is not achieved at all with PURS. That's the point I'm trying to make.

Mr. LaRochelle: I was going to say that one of the problems with the universal plan is that when a benefit is increased it's increased across the board, like the basic pension. That's why we agree with the royal commission that any increases be given to those most in need rather than just going across the board and giving everybody a general increase. You give an increase to the supplement, to those people who are in the crucial area who are living on the supplement and who are just surviving. That's what we're saying.

Mr. Mackenzie: So you really want to institutionalize the special assistance to one specific group rather than do it universally and then tax back in terms of fairness on income,

because you are really setting them aside, then, when you do that.

Mr. LaRochelle: Well, the fact is that this would be the quickest, most effective way to deal with it.

Mr. Mackenzie: I have doubts, but there are two other questions I really want to ask you. One of them is that you say we really shouldn't be concerned in effect about the universality of it or about the other provinces and what they do with it because most of the seniors live here in Ontario.

Some time in the last month or two Ontario passed 8.5 million people. The Dominion, coast to coast, is either at or just within 50,000 of 25 million, according to the statistics we have. So in fact we have one third of the people here. British Columbia, I believe, has as high a proportion, if not a higher proportion, of older people, but we're dealing with one third of the people in this province of our country, and most of us feel that we should be taking a look at it on a national basis.

There is a tremendous amount of movement even with older people, although not as much with older people as there is with younger people, from province to province and coast to coast. Can you really defend the statement that we shouldn't worry about the other provinces when in fact you are dealing with only a third of the people, when there is no higher percentage of older people in Ontario than in the other provinces that the figures really show, people who may very well be moving from province to province so they really have a vested interest in the kind of universality the plan has in this country?

I am wondering if there is some defence for your statement; that's all.

Mr. LaRochelle: Not really.

Mr. Mackenzie: Unless you object to my figures which, I think, will be verified almost to the point.

Mr. LaRochelle: I am not going to argue with your figures. I was just going to remind you that you are a member of an Ontario government and therefore--

Mr. Mackenzie: And I am very proud of it. But I am also a Canadian from coast to coast and very proud of the federal position. I sometimes think that we have gone too far in being parochial or provincial.

Mr. LaRochelle: I think your first concern has to be Ontario. If you can make the program work in concert with the other provinces, fine, but I think your first concern has to be here.

Mr. Mackenzie: I would have no difficulty in telling my voters that, yes, I am elected to represent my riding. But if that concern is so parochial that it is at odds with the national concern, there is no question where I am going to go on an issue. But that is not what we are arguing here.

There is a final point I want to ask you about. You make a strong case for extending the age of retirement above 65. I am wondering what your group's position would be with regard to specific groups. As a matter of fact, we had one of them before us yesterday in the police commission. They said there are not enough desk jobs when an officer is burnt out and not able to go beyond 60 on street duty.

In my own community I have had a long-standing fight over coke oven workers who shouldn't be on the coke ovens anywhere near as long as they are, let alone past the age of 60. Would you have any objection to a flexibility in a plan that also allowed people to retire at a lower age than 65 without being victimized? In other words, is it a two-way street, or is it simply that you want the age raised?

Mr. LaRochelle: I agree with you there are cases where it has to be lowered in specific areas. I would agree with you there.

Mr. Mackenzie: That is one of the reasons we have to be very careful on how we approach an automatic raising of the age at which you are pensioned.

Mr. LaRochelle: I think the key word is "flexibility." We agree that the general thrust seems to be towards a higher age but I agree with you in certain specific skills and trades there are problems where you would have to allow people to go out earlier.

Mr. Chairman: I want to thank you, Mr. LaRochelle, for appearing before us today. You have certainly been, I wouldn't say provocative, but you certainly have provoked some interesting discussion and stimulated our morning somewhat. We appreciate your taking the time to come before us and express your views.

Mr. LaRochelle: Thank you very much, Mr. Chairman.

Mr. Chairman: We have as our next delegation an organization known as Index Now. We have Mr. Art Campbell and Mrs. Anna Nancarrow. Will you come forward, please?

Mr. Campbell: Mr. Chairman, I have a prepared statement I would like to read and I have copies to distribute, if you like.

Mr. Chairman: There was a brief you submitted previously, if I am not mistaken.

Mr. Campbell: Yes.

Mr. Chairman: It was distributed a couple of days ago to the members. It is exhibit 148. I don't know whether the spokesperson is going to be Mrs. Nancarrow or Mr. Campbell. I see Mr. Campbell putting his glasses on; so I assume he is going to speak first.

11 a.m.

Mr. Campbell: Thank you, Mr. Chairman. To set the correct atmosphere for my submission, would you consider your feelings if

you had arranged to start receiving, say in 1968, $15,000 per year in 1981 dollars? You had every expectation of receiving that $15,000 a year. Yet, the following year, because of the method of payment, you didn't notice that you only received $14,500, and the following year only $14,000.

Certainly long before you got down to $8,200, you would have noticed, complained and maybe started suing someone, especially if you knew that your money was going to others, including the company which had said that it would pay you $15,000 per year. If you were then told that not only could you not get your money back, but that you would be losing even more in the future to the company and to others, then I think that you would have been frustrated beyond measure.

That in effect is what has happened to 800,000 employment pensioners except--and it is a big exception--most do not know that their money is going to others. The transfer of funds has been disguised by inflation and perpetuated by an argument between economists and actuaries. As you know, in an argument involving experts, it is the layman involved that usually gets hurt.

The producers in our society increased our national wealth, measured by the gross national product per person, by 38 per cent in real terms from 1968 to 1980. Meanwhile, economists have not been able to convince actuaries to stop counting numbers of dollars and acting as if a 1971 dollar was the same as a 1981 dollar.

As a result, Frank Richens, who is a Canadian National Railways retiree--I could quote from other examples, such as Carling O'Keefe--has received only about 75 per cent of the total amount that he should have received since retiring from the CNR in 1968. And Frank is one of the lucky ones; he has received ad hoc adjustments since 1968. In 1982, unless you and MPs in Ottawa act, Mr. Richens will receive only 49 per cent of his pension.

Both economists and actuaries are acting as if we live in an actuarial system. We do not. We all live in an economic system--companies, government, workers, pensioners, whatever. An economic system means that dollars have to be tied to goods and services. Someone has said that war is too important to leave to the generals, and so our retirement years are too important to leave to the actuaries. And as a country, investment funds are too important to leave to administrators.

Why do I feel qualified to give advice to actuaries and economists? It is because of a combination of academic achievement, experience and specialization. I have a master's degree in aeronautical engineering, a science which requires considerable skill with mathematics, and I have had a year of law school. I am aware of the ethics of professionals using their knowledge to gain an advantage over others. I have specialized. My presentation concerns only indexing, or inflation protection.

Indexing is a response to inflation and is quite separate from coverage, vesting, premiums, benefits and portability. Inflation protection is an economic problem, and not an actuarial problem. That is why I have no hesitation in recommending to you

that inflation protection should be separated from your other complex considerations. Action can be taken by your Legislature, and it should be taken by your Legislature now.

A few more words of background may be useful. I became involved in 1976 on this issue when the National Citizens' Coalition publicly attacked indexing of public service pensions. I had just finished reading that Canada's wealth was increasing. Since indexing just means that whatever you bought yesterday, you can buy today and tomorrow, it made sense. If pensions were not indexed, then pensioners would be getting less while Canadians as a whole would be getting more. That did not make sense.

I contacted Colin Brown of the National Citizens' Coalition, Mr. MacIntosh of the Bank of Nova Scotia, Dowsett of Crown Life, Donald Macdonald, who was then the Minister of Health and Welfare in Ottawa and, in fact, anyone who was quoted in the media as talking about indexing.

I read reports, contacted editors and wrote letters to the editors. The papers which I read, without exception, editorially attacked indexing of public service pensions but did not report statements in reports that said that indexing was sound in principle and that inflation was transferring money from pensioners to others. Indexing was painted by the media as bad.

Having failed to convince editors or presidents of financial corporations, I obviously was not a good salesman. However, I turned to advertising, following examples set by the National Citizens' Coalition. I took quarter-page ads in the Ottawa Citizen, the Globe and Mail, Le Droit and in Halifax papers, hoping to influence you and other politicians.

That provided at least an entrance. Experts were willing to listen and discuss. As a result, I have spent about half time for 15 months, say 1,000 to 1,500 hours, on the campaign. People have been most generous with their time, including actuaries and economists from the private, public and university sectors, corporation executives, administrators, media executives, politicians, politicians' aides and public servants.

There was one consistent thread. Those who should know--that is, those who were involved with pensions, whether in management of large funds or in government policy areas--did know that indexing was sound in principle and that, without it, funds were being transferred from pensioners to others. A typical comment by an actuary is: "We do not recommend indexing to our clients, because indexing shows as a cost on their books. If indexing is legislated, we will recommend indexing."

Actuaries and economists in the private, public and academic sectors were totally aware of the transfer of funds from pensioners to others, but there was no sense of urgency in correcting the situation. Why? I guess we all have our bottom lines. Business must make a profit and bureaucrats must keep their jobs et cetera. In any event, no one is speaking out.

I hope, then, that you will exercise your bottom line, the

need to be re-elected. You have the opportunity here to rescue 800,000 employment pensioners, who, with dependents, represent more than a million voters. That is a very legitimate objective, and it is sound economics as well.

You may have noted that the brief does not mention need. I am not suggesting that pensioners be given anything that they have not paid for, just the full return on their investment. My bank manager and my stockbroker have never asked me if I need the inflationary interest or earnings or capital gains that I receive. They pay it because by not doing so, they would lose my business. The same principle, unfortunately, does not apply to employment pension funds.

The pensions industry does not have the discipline of the market place. Unlike banks, which must compete for funds, the industry has a captive source of funds. Unlike lawyers who administer trust funds for clients, the industry does not return all earnings to those who have contributed part of their pay package to the fund. That is not an accusation, it is a fact. In the brief I quote from the president of the Canadian Life and Health Insurance Association: "Inflationary earnings are used simply to reduce the employer's costs."

The excess interest approach, which you recommended in your first report, would attempt to catch the inflationary earnings and return them to pensioners. However, it is just one of numerous methods of providing inflation protection. It is one answer to the question, "How do you provide protection, or how do you tie the pensions industry to the economy." It does not answer the question, "What protection is to be provided."

Whenever experts ask nonexperts to tell them how to do their job, I get nervous and feel uneasy. Further, excess interest, in effect, is saying, what the industry has done is what the industry can do, and therefore it is what it will do in the future. Think of the North American car industry in that framework. Would you legislate big cars? Why are you recommending legislating excess interest?

Finally, on excess interest you have been told that it is a reasonable approach to inflation protection, and that full indexing to the consumer price index would cost X hundreds of millions of dollars--too many dollars for employers to absorb in their costs. However, the other side of that coin is that if you do not index fully, then those same X hundreds of millions of dollars will come from pensioners. Can they afford that? Should they be asked to afford it? Why should they lose so that employers and administrators, who have experts to take care of their interests, can gain? Must those with no bargaining power always lose while others gain?

Now for the prime reason that I am here today: There are 800,000 employment pensioners and well over a million voters who are losing and who will continue to lose while others gain, unless you act. Just think back to that $15,000 in 1981 dollars you were to receive annually starting in 1968, which has now dwindled to $8,200 in 1981 dollars, and will become $7,400 in 1981 dollars in

1982. That is Frank Richen's story. I believe it is typical of plans with ad hoc adjustments. How about other segments of our society?

11:10 a.m.

If you think of the economic pie which is Canada, and your own segment of that pie, in general that segment has increased both in width and length as the size of the pie increased, especially in the 1960s and 1970s. In the 1950s and 1960s, an employment pensioner had a relatively fixed segment. His segment did not increase in length and it became slightly smaller in width as prices increased. Then in the 1970s, the size of the pensioner's segment began to close together rapidly, and in doing so, obviously the person in the next segment was getting more pie, or someone was getting a bigger share.

If you examined why this was happening, you would find there was no mechanism to prevent it. The force of the market encouraged it. There were either no rules or the economic rules were overridden. Returning to your piece of the pie--this is typical of workers, especially unionized workers--the size of your segment would oscillate. Sometimes you would have a bigger segment, sometimes a smaller segment. If you were behind inflation, then back pay and wage adjustment would push you ahead of inflation. On average, workers kept ahead of inflation. Remember that 38 per cent increase in the GNP over a 12-year period. But employment pensioners lost and lost. How much of an adjustment do they deserve?

As an aside, remember we are talking about people who have had no adjustment since they retired as much as nine years ago. Just imagine trying to exist on your salary of 1973. I lost about $25,000 in 1981 dollars because of lack of indexing. Frank Richens, a CNR retiree of 1968, has lost $40,000 in 1981 dollars--more than that. George Boivin of Carling O'Keefe retired in 1974 and has lost about $6,000 in 1981 dollars. How do we compensate Frank and George and the more than 800,000 employment pensioners and how do we stop them from losing in the future? How do we stop others from gaining from them? How do we make the rules fair?

You will see my recommendations on that back page.

Recommendation one: All pension plan administrators be advised to pay their pensioners an interim adjustment such that the pension received for 1981 shall have the same purchasing power as their pension had in the first year of receipt of pension. That is a bare minimum of back pay. That would give Frank Richens about $7,000 of the $40,000 owing to him. George Boivin would receive about $1,600 of the $6,000 owing him.

Recommendation two: All pension plan administrators be advised that effective in 1982 pensions will be indexed to the economy. That places the pensions industry in the economic system. The industry would then be on the same footing as employees, banks, other businesses and pensioners. Hopefully, that would mean that pensions would be written in real terms, real dollars.

Recommendation two, with recommendation three, puts the

problem where it belongs--with the experts who advise on pensions, with the experts who lend funds to the experts who borrow funds from pension plans. It provides a modicum of protection to the layman, the average employee and pensioner, in dealing with the experts. In the long term, it is hard for me to see pensions continuing as a retirement vehicle and as an investment source of funds unless recommendation two is adopted in some form.

Recommendation three: All pension plan administrators be invited to submit their recommendations for government involvement in meeting these commitments, especially in the short term and in providing back pay for losses incurred by their pensioners through the interaction of legislation, action by administrators and inflation.

This is the problem of who should pay. Perhaps you should not worry about that, just as you did not worry about where your adjustments were coming from, or just as Stelco, in their recent settlement with the union, probably did not ask their customers how the customers were going to cope with the increased costs which Stelco would have to pass on. The pensioners have lost through a combination of legislation and action by administrators. Whether this loss is through negligence, happenstance, ignorance or was deliberate, as suggested by an industry spokesman, they have lost and someone has gained. Perhaps the courts will have to decide who should pay. This recommendation gives an out to government and industry to come to an agreement first.

Recommendation four: Your committee take immediate action to stop the losses of all employment pensioners. Ideally, they should not lose one more dollar to others. Please advise your Legislature now that inflation protection can and should be separated from pension concerns such as coverage, vesting and portability. Indexing is a response to inflation. It is an economic problem and not an actuarial problem.

Overall, then, the recommendations say to 800,000 employment pensioners that the transfer of their funds is being stopped, that here is roughly what you lost last year; do with it as you please. Back pay as well as other adjustments will follow, as will a final design for the future; that pensioners both present and soon to be retired can rest assured that their pensions will be tied to the economy somehow.

I hope no pensioner has to come to you to justify why he should not lose more. I hope no pensioner has to sue his former employer, his former union or his own government to stop the transfer of his wealth to others.

Repeating, the wealth of this country has increased by 38 per cent in 12 years and we are taking wealth from pensioners, from people who have no defences.

Mr. Chairman: Maybe I can start off by asking you whether you considered this proposal in conjunction with existing government programs that are in place that only apply to persons of 65 years of age or over, such as free drugs, OHIP premiums, tax rebates and that kind of thing, that I suppose would bear somewhat

in making the burden a little lighter for people who have fixed incomes? Not only are their incomes fixed, as you pointed out, but also they are dwindling because of inflation. Did you consider, if you are keeping income current, any change in those plans that I guess address in part some of the problems of persons who are on fixed incomes?

Mr. Campbell: The things you are talking about--OAS, for example--to my mind are social programs and are a floor provided for all people. It is a universal concept. The things you were talking about were of that nature. They provide a floor and everybody gets those benefits if they are over age 65.

I liken an employment pension to a savings account or an RRSP. It is something you personally put money into and you expect to get a return from it. It is in a different category from the programs you are talking about.

Mr. Chairman: I understand. You are trying to sanforize the pension dollar. What I am pointing out is that I would surmise that some government programs that apply only to those persons on pension or those over 65 were designed to take some of the economic pressure off those persons because of unstable economic conditions. If so, would the implementation of your plan prompt some change in design of some of the other social programs so that there would be a cancellation effect to some degree? I wonder if you gave any thought to that prospect.

Mr. Campbell: One thing it would do would be to prevent a lot of pensioners going down below the poverty line where they are now eligible for GIS. If they had their indexed pensions, which is their money, in my view, then they would not be asking for GIS.

Mr. Chairman: There could be some balancing. I was wondering if there was any consideration give to that.

Mr. Campbell: There would be more money available then in the social programs because these people would not have to be paid them, and these funds would come out of companies and the pensions industry as such.

11:20 a.m.

Mr. Chairman: To sort this out--being the chairman, of course, I am neutral in everything and just referee the conflicts amongst the committee members--could you comment on an argument that I have heard that indexing would help feed inflation?

Mr. Campbell: Yes, Friedman, an American economist who got quite a bit of publicity a little while back, argues the other way around. The more things are indexed--

Mr. Chairman: The Milton Friedman?

Mr. Campbell: Yes. He argued that the more things you index, the faster any inflationary effect is going to go through the economy and therefore will not create instabilities. He argued that an inflationary price rise, if it goes slowly through the

system, is going to create waves as it goes that have to be picked up later on. In short, Milton Friedman says indexing everything is a good way to beat inflation.

Mr. Chairman: So you are drawing on the ultimate, but not conservative, capitalist answer.

Mr. Campbell: The simple answer here is that what we are doing is transferring funds from one group of people to others. I cannot, for the life of me, see, if the CNR had some extra funds and spent them, why that is not inflationary, but if they transfer those funds to their pensioners, why that suddenly becomes inflationary. It is the same chunk of dough. Again, economists tell me, it is the way the money is spent that is important as far as inflation is concerned, not who is spending it.

Mr. Haggerty: You could have the same scenario with life insurance policies too, if you are buying life insurance policies. If you bought 20 years ago, say, the interest rate the companies will pay you is very low; but over the years, with the inflationary trend and the high interest rates, the industry has been able to capitalize on that. Then, when valuation day comes along, what is your policy worth? Nothing, completely nothing, in the long run. But somewhere along the line, with the private sector investment, the insurance companies have been able to do very well with it; the cash flow and their income have been tremendous in this area.

Mr. Campbell: The paper I found very useful in this area was by Mr. Ilkiw of the treasury branch here in looking at winners and losers in an inflationary environment. He made that sort of point very well.

Mr. Chairman: I think you have pointed out that the size of the economic pie, if I can put it that way, is constant, and it is a question of competition for the size of the slice. The pensioner just does not have any clout in terms of protecting himself in negotiating a piece that is going to maintain his purchasing power; so that the stronger segments of the community or society then will stay even or do a little better and some will have to suffer because there is less left.

Mr. Campbell: That is exactly it, and that condition would not happen if there were low inflation around. It is just because there is inflation around and everybody else can protect themselves, and 10 million workers, on an average, in Canada are protecting themselves.

Mr. Chairman: So what you would do is create a defence for the pensioners who do not have the bargaining or economic clout by saying, "Here, this segment are going to experience indexing; the rest of you can argue over it because you have some clout in the marketplace." I sense that is what you are saying.

Mr. Campbell: Yes.

Mr. Chairman: So what you are doing is indexing just the pensioners' share of the economic system and leaving the rest to compete in the market system.

Mr. Campbell: Right.

Mr. Chairman: You are assuming, of course, that the size of the pie remains constant, although in fact it might shrink if we have negative growth; or, if you have very buoyant times, then you do not have the same problems in terms of indexing because your dollar is not depreciating the same. I assume that.

Mr. Campbell: Historically, the pensioner has not shared in the increasing wealth of the country, that 38 per cent increase in real wealth from 1968 to 1980. Pensioners did not share in that and they would not have shared even if there were low inflation around. They get a constant segment; the pie can get as big as you want, but they are limited to their segment.

Mr. Chairman: Historically, surely, we have enjoyed--and I mean that word in an odd sense--consistent inflation. There has been a gradual increase in (inaudible)

Mr. Campbell: I'm sorry. I can't hear you, Mr. Chairman.

Mr. Chairman: I say, I believe there has been historically a gradual increase in costs and, if that is so, then the pensioner is bound to be squeezed to some degree.

Mr. Gillies: Mr. Campbell, I am just going over your brief and a few things spring to mind. Regarding our interim recommendations from the fall, have you had a chance to look at the excess interest principle of indexation or at least an accumulation of benefits? Have you any comments on that mechanism as opposed to your recommendation which would gear the pension benefits to the performance of the overall economy?

Mr. Campbell: The thing that seems odd to me in an excess interest approach, and I use the analogy of walking into a bank, is that a pension plan is much like a savings account in my estimation. I have never walked into a bank yet without seeing a sign that the interest rate is 15 per cent or 17 per cent. I cannot imagine going into a bank, seeing, "excess interest practised here," and putting any money into that bank.

The whole principle, I think, of excess interest is much like a registered retirement savings plan. You put your money in and you take a chance on how it is going to turn out, but with an RRSP you have a choice and with a savings account you have a choice. You can take your money back out if it is not performing well. With a pension plan, you have none.

The other comment on the excess interest, it has been said it is a reasonable approach but, as I say in my brief, it does not provide full indexing. The pensioner still loses. Nobody has ever explained to me why the pensioner should automatically lose.

Mr. Gillies: I guess the attraction to some of us on the committee of the excess interest approach was that the indexation, if you will, is at least somewhat tied to the performance of the investment. I am just looking in your brief at page four when you

likened a pension fund to an investment and, as you say and as you just said again, Mr. Campbell, if you go to your bank manager or your stockbroker, you expect and you have every reason to expect that your investments will accrue at a certain rate.

If I might show the other side of that coin, if I invest X amount of money in a stock, the increase in value of that stock is not necessarily tied directly to the increase in performance of the company. A very good example is the bank profits which everyone harps on these days. If I invest in Bank of Nova Scotia stock, I doubt very much that my stock is going to increase in value in 1982 proportionately to the increase in profits of that bank. You know darned well it will not.

What I am trying to get at here is that, if I follow your own analogy through, that your contribution to a pension fund is an investment and all investments, to varying degrees, rise or fall depending on economic tides, do you not think that is somewhat in conflict with your argument that, if inflation is 12 or 13 per cent next year, all pension funds will then automatically increase their benefits by 12 or 13 per cent? There seems to be a bit of a conflict in that, if we follow the analogy that each retirement fund is an investment portfolio, why should each fund necessarily produce the same amount of indexation every year?

Mr. Campbell: According to the Lazar report, the task force on retirement income policy, they will not, but you will get fluctuations from year to year. You will get a decrease in earnings one year and an increase the next year, whether there is inflation around or not. In inflationary times, those fluctuations will become more pronounced. One of the schemes that was proposed in the Lazar report was a stabilization fund just to take care of those rapid vibrations, if you want to call it that, in returns on investments.

The big thing that may answer your question is, in noninflationary times the pensions "industry"--I use that in quotes, of course--did guarantee a fixed pension at the end. It tied itself to the economy. It had to say, "We will give that amount of money because we know our investments are going to pay off that fixed amount." In inflationary times, that fixed amount becomes an indexed amount, the same as a quota clause applied to wages, the consumer price index applied to pensions. There is an equivalence there. In inflationary times, is the pension with the CPI taken into account? That, in my view, is tying the industry to the economy.

11:30 a.m.

Mr. Gillies: I might just say I have a lot of sympathy for the theory of what you are saying. I am just trying to piece together some of the mechanics.

In recommendation two, when you say that pensions will be indexed to the economy, you do not necessarily mean that every pension fund is just indexed to the rate of inflation, that there could be some fluctuations there depending on the performance of the individual fund.

Mr. Campbell: I think to be equitable it would have to be tied to the CPI. Why I say to the economy, there are many ways of tying the pensions industry to the economy. The suggestion I am making is through the CPI and then, if the economy has been very buoyant for a year, industry and government get together to decide and maybe one per cent is added on. If the economy has gone downhill in the last year, maybe you do not get the CPI adjustment. You get something slightly less, just in the way salaries and wages fluctuate year to year.

Mr. Gillies: Looking quickly, I have a few questions on your specific recommendations. Number one, you suggest we should move very quickly to impose this indexed benefit on top of all pensions and pay. Had you considered that, in practical terms, that could lead to such pressures on some pension funds that they could conceivably go broke if you brought it in as, "In 1982, you will pay all pensions in pay at this amount?" I have to think that some funds would not be able to take that strain because it is in no way accounted for in their actuarial assumptions about the plan.

Mr. Campbell: There are several questions to answer there. In the brief proper--I have just lost my trend of thought here.

Mr. Gillies: What I am saying is, if you impose this across the board indexation all at once on pensions in pay regardless of how old they may be or how many people are drawing on them, I am wondering if it could in the short term lead to bankruptcy on the part of a number of funds.

Mr. Campbell: What you have in front of you now is just my statement. In the main brief, I have a section on page 10, "Short-term Implications of Indexing Pensions." Number one is that legislation will have to include that declaring a plan bankrupt is just not an option that is available. In other words, you would have to stop the bankruptcies from occurring right off the bat because that certainly would be something that could happen.

Mr. Gillies: I guess then the next question is, if the plan would normally go bankrupt because of the pressure put on the plan, and the federal government were to introduce legislation that we cannot go bankrupt, where do they get the money?

Mr. Campbell: That is where recommendation three comes back in. When Chrysler or Massey-Ferguson are in trouble, they come back to government, saying, "Hey, help."

Mr. Gillies: Perhaps in that regard I should be asking the next question then. I would have to ask whether--

Mr. Chairman: Did you stop payment on the cheque?

Mr. Gillies: No. In fact, just for the record, and I hope they will not stop payment on the 2,000 workers who were just recalled in my riding but, seriously, Mr. Campbell, I have to ask you, obviously, if for an interim period of time government were to pick up the slack until the firms could put themselves in a

position to pay out these benefits, have you or your organization any idea of what that might cost? Is there any calculation or is it possible to calculate how much that might cost?

I could put it back to you that we do not have our own money up here. The only money we have is the taxpayers' money. If you follow it to the nth degree, if this were to cost some billions and billions of dollars, would the extra taxes we would have to raise to pay that have a deleterious on the people that could almost counteract what you are trying to do?

Mr. Campbell: I go back to the same argument that if you do not do this then the pensioner is going carry the whole load. It is a tradeoff situation. This is why I suggested throwing the ball back out to those people who have been managing the funds thus far and have been misusing funds by the statement of their own president of the Canadian Life and Health Insurance Association and say to them, "What's the answer to the problem?" Let them come back with that answer how to solve the thing.

I guess it is the lack of power of the pensioner in a situation that we are worried about how industry is going to pay this thing. Say you go back to your pay, or Stelco, they put in compensation to their workers without asking customers of Stelco how they were going to pay the thing; it feeds right through the system.

Mr. Mackenzie: Would you allow a supplementary on that?

Mr. Gillies: By all means.

Mr. Mackenzie: Would it not make more sense in a practical way, and I am just raising the argument with you, as almost any time we initiate a new program, and certainly there is sympathy for the position of the current pensioners, most of us in our ridings have them visiting us. You have quoted examples I can add to in my own constituency.

In practical terms, if this committee and this government could be convinced of the value of indexing, and it is going to be a cost probably, but if we could really be convinced of it, that you phase it in rather than say that you immediately--I know what you are trying to do and I have some sympathy for it, but I just think it is not going to be perceived as being practical, no matter how much you argue it is.

Mr. Campbell: The deck is stacked badly right now because there has been so much publicity about the cost of indexing costs, and indexing does not cost. The actuarial assumptions you mentioned about not taking into account the indexing factor, the Lazar report shows that, if the plan is actuarially sound in noninflationary times and will pay a fixed pension, then in inflationary times it will pay an indexed pension. It makes enough to do it but with these wild variations from year to year.

Mr. Mackenzie: I can see us selling indexing in a difficult battle in the country, at least I would like to think I can see us selling it. But if you add to that an immediate payment

of the size I think you are suggesting here, then it is almost automatically, whether it should be or not, put in the kookie classification or it is what kills the chance of getting at least the indexing. I may be speaking out loud or bluntly but I think that is what bothers me a bit about it.

Mr. Campbell: It is certainly a concern but, as you say, there has been no real calculation. The rough one I did indicates that inflation is transferring about $1 billion a year from pensioners to others. That is a massive transfer.

Mr. Gillies: By way of conclusion from my point, I think Mr. Mackenzie and I are heading down the same track here. There is all kinds of sympathy for what you are trying to do, and very great concern about the plight of people with low pensions, pensions and pay which have over the years almost lost their meaning in some cases. But just how you do it, how you phase it in or by what mechanism, I think, is what the committee is going to have to decide.

Mr. Mackenzie: I think the increase in Gains, which we are already hoping to get, is one of the answers to what you are saying. It also is a possibility, a substantial immediate increase, if we could get them to put forward the legislation.

Mr. Campbell: Through Gains; but again that is a universal program.

Mr. Mackenzie: That is true, but it is dealing with the people in the most trouble at the moment.

Mr. Campbell: What I would dearly like to say, I guess, and get shot for it: If we are going to continue to allow pensioners to lose, let us take, say, a five or six per cent cut of every savings account in this country. That is the equivalent of what you are doing. You are giving the employment pensioner about a four per cent return on his investment, maybe six per cent. Why should all the people with savings accounts be making 15 per cent and this guy have four or six? It is laying the whole load on this 800,000 people and their dependants.

Mr. Williams: As a matter of interest, you have obviously gone about your task with conviction and commitment. You have spent many hours talking to a lot of people in different disciplines. You mentioned some of the people you had approached and talked to. Was the reponse you got from these people, who are perhaps more knowledgeable in the field than we are, just as elusive as perhaps ours is today? What response did you get?

Also, I notice you even put money out of pocket to go to the public with newspaper advertisements. I recall having seen one ad that you ran. I was wondering what response you got to that.

Mr. Campbell: It is not the way to get the message across.

Mr. Williams: Is that right?

Mr. Campbell: Unless the newspaper you put your ad in is,

I would not say sympathetic but, unless they put an article in alongside it or somewhere in the paper, saying, "This is what Art Campbell is doing," it does not pay off. Or even if the article says that Art Campbell is a bit of kook who will go out and spend his money, it at least gets public attention so that you can go look up the ad. But as a means of getting a message across, I would say it is not going to do it.

11;40 a.m.

Mr. Van Horne: Would you have had better results if you had on a bikini and had a placard scotch-taped to your chest and stood out in front of the newspaper building?

Mr. Campbell: Not me in a bikini.

Mr. Williams: As I say, I think we all admire the tenacity that you take on this. Certainly we know the objective you are trying to accomplish. Whether it can be accomplished in a practical way is the dilemma we are all confronted with.

Mr. Campbell: Not making a decision in this area is making a decision. It is deciding that pensioners are going to continue to lose.

Mr. Chairman: Not making a decision is making a decision, I presume, because you are not maintaining the status quo. The pension dollar is shrinking.

Mr. Williams: It is an act of omission.

Mr. Campbell: That is right.

Mr. Williams: I see you have a sort of double billing here today, yourself and Mrs. Nancarrow. I was wondering if Mrs. Nancarrow could offer some contribution to the input here, whether she intended to comment, or was just there to back you up with statistics and other resource material.

Mrs. Nancarrow: I am here as a friend, but I am also concerned because my mother is a surviving spouse pensioner and I can see her pension becoming less and less and her spending power decreasing. I find it upsetting that my father's plans, well laid he thought, are just not materializing.

I feel there must be many women in a similar situation, most of them women who have not had any experience in putting their views forward to groups and in organizing themselves. They were brought up to be quiet, to sit in the background, to have their husbands speak for them, probably even tell them how to vote. They have no means of getting this through, and they don't even really realize what the problem is. This does concern me.

Mr. Williams: The idea of husbands telling their wives how to vote is as archaic as the pension system.

Mrs. Nancarrow: My husband wouldn't try it.

Mr. Williams: I don't want to breach a personal confidence here, but you gave us a specific example that is close to you, within your family, of your parents. What was the base pension?

Mrs. Nancarrow: I am not sure. My father was a CN pensioner. I am not sure what his base pension was. It was somewhere around $600 a month--this runs in my mind--which then was cut to $300 on his death. It was a half pension to the surviving spouse.

Mr. Williams: There is no enrichment or anything built into that plan?

Mrs. Nancarrow: There have been a couple of increases. I am not sure exactly what. My mother guards her financial situation and I have some vague ideas. There hasn't been a great deal. She has felt she was fortunate to get the increases that she got. I felt they were totally inadequate.

Mr. Chairman: It certainly has been a stimulating morning. You have added to it, I must say. There is certainly a lot of sympathy with what you are saying. There may be some fear of the unknown in terms of the ramifications of this throughout the marketplace or the economic system, and Mr. Gillies has raised that point, although I think there is a great deal of concern for a particular target group that just has not the protective mechanisms that other groups in the economy do have to protect their purchasing power. I am sure the committee will give your submissions serious consideration. We want to thank you for appearing for us today.

Mr. Campbell: Thank you, Mr. Chairman. I hope you will consider that if there were a million workers in these straits and not a million pensioners the sort of ruckus you would have on your front steps.

Mr. Chairman: We appreciate that.

Mr. Campbell: The thing I have really found outside during this past year in dealing with pensioners is that there are an awful lot of tired pensioners out there and there are a lot of pensioners who are working their butts off trying to make ends meet. But you certainly are not going to get a demonstration on this one. There just isn't the wherewithal and there is not the knowledge to demonstrate.

Mr. Chairman: Thank you. Gentlemen, this afternoon we will be having the Canadian Organization of Small Business appearing at 2 o'clock and Mr. Ross Rigney at 3:15 p.m.

Mr. Rigney's brief, for those who want to pursue it over the lunch hour, is in the third volume of your material. I will just get the exhibit number for you so that you can peruse that. It is exhibit 98. If you could come as usual promptly at 2 o'clock, we would appreciate it very much.

The committee recessed at 11:47 a.m.

PR-11

SELECT COMMITTEE ON PENSIONS

REVIEW

THURSDAY, JANUARY 14, 1982

Afternoon sitting

SELECT COMMITTEE ON PENSIONS

CHAIRMAN: Taylor, J. A. (Prince Edward-Lennox PC)
Brandt, A. S. (Sarnia PC)
Cousens, D. (York Centre PC)
Cureatz, S. L.; Deputy Speaker (Durham East PC)
Gillies, P. A. (Brantford PC)
Haggerty, R. (Erie L)
Jones, T. (Mississauga North PC)
Mackenzie, R. W. (Hamilton East NDP)
McClellan, R. A. (Bellwoods NDP)
Riddell, J. K. (Huron-Middlesex L)
Van Horne, R. G. (London North L)

Clerk: White, G.

Researcher: O'Mara, Dr. J., Legislative Research Service

Consultant: Bentley, W., Superintendent of Pensions, Pension Commission of Ontario

Witnesses:
French, D., Private Citizen
Rigney, R., Private Citizen

From the Canadian Organization of Small Business:
Anderson, D., Pension Consultant
Hale, G., Director of Government Relations

LEGISLATURE OF ONTARIO

SELECT COMMITTEE ON PENSIONS

Thursday, January 14, 1982

The committee resumed at 2:13 p.m. in room No. 151.

REVIEW
(continued)

Mr. Chairman: We have with us Geoffrey Hale, director of government relations, and Donald Anderson, pension consultant, from the Canadian Organization of Small Business. We have your submission, gentlemen, and you may touch on the highlights or handle your brief in any way you wish, and, of course, you are prepared, I understand, for some dialogue with members of the committee.

Mr. Hale: What time frame are working with, Mr. Chairman?

Mr. Chairman: We have another delegation coming in at 3:15.

Mr. Hale: So we have about an hour?

Mr. Chairman: Yes.

Mr. Hale: All right. The Canadian Organization of Small Business certainly appreciates this opportunity to appear before you in your studies of pension policy. The challenge of organizing the savings of Canadians to generate a climate of sustained economic growth and a secure retirement for all Canadians is an enormous one, to put it mildly.

The range of issues at stake makes it unlikely that you or we will be able to devise an ideal solution that will take account of all the interests and all the factors at stake. We believe the best that can be hoped for from your efforts now and from the policy steps that will be taken by the Ontario government in the coming year is to secure the present income security of Canadians who are retired now without mortgaging the future and the economic growth necessary to secure our future as a nation.

Small business people are very understanding of the basic challenge represented in pension policy. As individual employers, people with parents, relatives who are retired and who, in many cases, do not have a clearly defined retirement income or pension policy of their own, they recognize the need to build up a personal property stake to carry them through. In many cases, this is their business.

This is perhaps why they recognize the difference between short-term needs and needs that perhaps are best dealt with through current tools, such as the OAS, the GIS and various provincial pension supplements, such as Gains, and the longer term approach that will require a balance between what can be accomplished through general pension funds, whether public or private, and the

work of individual employers and employees too to secure their own future.

COSB believes that the long-term pension needs of Canadians are best met by a mix of public pensions, private pensions and individual retirement savings. A single uniform program, whether an expanded Canada pension plan or the provincial universal retirement system, is unlikely to meet the widely varying needs and aspirations of Canadians. We believe that a single dominant public pension program is quite likely to replace rather than supplement private pensions and a large part of personal retirement savings. This is especially likely with regard to those programs already in place in the independent business sector.

COSB supports the principle advocated in the Haley commission report that individuals should maintain a significant degree of direct control over their retirement savings. The element of personal choice is important from several points of view. First and foremost, retirement income savings should be seen as the property of the individual. This is fundamental if we are going to accept the principle of pensions as deferred income. It should be up to individuals to control and to invest as they see fit and the greater the separation between an individual's own ability to control his funds, should he or she so choose, and the actual use of the money, the greater the danger of allowing hardening of the arteries to set in to our retirement income system.

Another part of the aspect of personal choice is that at different times in their lives, people have different priorities in terms of investing their savings. At 25, starting a family and perhaps purchasing a home are of very significant importance. At 45, the question of retirement savings is a good deal more important, and at 65, it can be paramount. We believe that policies pursued by this committee or recommended by this committee should recognize the importance of individuals and their ability to control their own financial destiny.

We are deeply concerned at the concentration of economic and financial power inherent in proposals for the significant expansion of mandatory public sector pension plans. In our view, there is already an excessive concentration of financial power in the hands of the chartered banks, trust companies and agencies of the federal and provincial governments. This is not desirable, either from an economic standpoint or from a social standpoint. Canada's economic future and its independence depend largely on fostering a sound, diversified and balanced economy in which individual Canadians can build a personal property stake, whether in their homes, their businesses or their farms.

A mandatory savings program that absorbs a growing percentage of payroll and that is aimed primarily at meeting current pension needs will tend to undercut the ability of individual Canadians to invest successfully in their own homes, farms and businesses, and we believe that if this results in fewer small businesses being created and fewer jobs being created in those small businesses, this will have an incalculable economic and social cost.

Existing government regulations and the investment practices of the financial community are not conducive to the recycling of retirement savings in small businesses even to growth-oriented or high-technology small firms. There has been a lot of talk in recent years about venture capital. Many studies have been done but, to date, nobody has found an efficient or an appropriate nonbureaucratic way in which the savings of a community, whether that community is a business or a small town or a larger city, can be recycled back to secure the future of the people who contribute those savings. That means that cash flow will be drained off many small businesses without any hope of return through the normal financial channels, resulting in an increasing concentration of power.

2:20 p.m.

At most times in their lives, small businesses face a rather severe cash flow crisis. It can be early on in the startup period. It can be when they reach a period of growth. It can be because of a catastrophe, such as the illness of the business owner, a major change in competitive market or perhaps a breakup in a partnership.

Most small businesses will go through this at one time or another. Those who survive generally manage to increase substantially their economic contribution to the community. We would be very concerned should policies adopted by the Ontario government or the federal government result in a weakening of their ability to withstand this kind of shock and really undermine the opportunities for employment and for job security of many thousands of Canadians.

The long-term viability of the Canadian economy and the ability of Canadians to finance an adequate level of retirement income for future pensioners will depend on the viability and dynamism of the small business sector. This is especially true of our growing high-technology industries. And it is also important for small entrepreneurial companies that are vital to the growth of Canada's manufacturing and resources sectors in the 1980s.

Ontario is facing, perhaps more than any other province, a reconstruction, a reorientation of its economic base, especially its manufacturing sector. It is going to require a great deal in the way of savings and investment being put back into those companies to enable them to provide us with the prosperity in the 1980s and 1990s we have enjoyed in the last three decades.

A pension policy that makes enormous demands on the cash flow of small firms, if it transfers it to the almost exclusive use of governments and large public or private corporations, will erode the ability of Canada's entrepreneurs to build and finance the economic growth necessary to that prosperity. COSB strongly supports a policy of extending personal and collective retirement savings coverage through voluntary incentives and by facilitating the inclusion of employers and significant shareholders in employee plans.

This is a major deficiency in our current pension and tax laws. Present federal laws and regulations prevent or discourage

the participation of significant shareholders in deferred profit-sharing plans and certain kinds of small business pension plans.

The recent federal budget struck a death blow to virtually every DPSP in a small owner-managed business. If the business owner cannot profit from such plans, it is not altogether surprising that there are relatively few of them. Many Canadians work for companies that are not firmly established in the marketplace. To give you an idea of the employment in small business, about 40 per cent of all employment in Ontario is in companies with fewer than 100 employees. More than half of our private sector employment is in that kind of company.

Extensive studies have shown that approximately 64 per cent of all companies started in the early or mid-1970s did not survive five years of operations. We talked about the cash flow crisis and that is one very clear example of it. The mortality rate of new small businesses is likely to increase even further should current economic conditions continue. We are talking about interest rates; we are talking about a punitive tax climate; we are talking about a slow-growth or no-growth economy and higher energy costs. This is not conducive to creating the kind of new wealth we need to pay for the pensions of the future.

Perhaps another symptom of this is that federal government figures suggest that at least 43 per cent--and the figure is probably higher now then when that statistic came out of the federal government--of all small corporations, defined as those with annual sales under $2 million, did not have sufficient profits to pay income taxes. If you are not paying income taxes, any additional payroll taxes come out of the cash flow the company needs to sustain and expand its operations and essentially they make small businesses more dependent on external financing, on bank financing, on the tender mercies of government agencies. Very few of us would ever recommend that our members go for financing to a government agency.

Obviously, a certain amount of creativity, a certain amount of flexibility, both in government and in the private sector is needed if we are going to encourage small business people to expand the benefits that they can offer. But the first condition to expanding those benefits is to at least start getting profits in the first place. It is not unreasonable to suggest that like future economic growth, adequate pensions depend on profits.

COSB accepts the principle that pensions are deferred salaries. Large corporations, employers and employees are likely to opt for defined benefit plans despite their high administrative costs. Consequently, COSB challenges the assumption that public and private sector pension policy should be regulated on the same basis.

Public sector policies are based on the right of retired individuals to a limited claim on the current production of working taxpayers, largely without reference to any personal contributions they may have made towards that pension. Private pensions, as

deferred salaries, are subject to voluntary agreement between employers and employees or their representatives. While pension legislation governs the conditions of funding and the management of funds, the contracting parties are and should remain free to arrange the levels of premiums and benefits according to their particular needs and resources.

We would be loath to see a system whereby federal or provincial law infringed on the collective bargaining system in terms of the level of fees that could be negotiated and in as much as small businesses are concerned especially, there tends to be a direct replacement of retirement savings contributions by expanded, for instance, Canada pension premiums, if that occurs. This factor has to be carefully considered.

We support your recommendations in your interim report recommending the shortening of vesting requirements, promoting greater portability and extending the reporting requirements of private pension plans to their employees. We believe this is absolutely necessary. If people do not know what is coming to them, it is very difficult for them to plan. We believe it is completely reasonable for a concise but understandable summary--not only of where the pension plan is going to be 20 years from now, if there is a period 20 years from now. They should also know what is there right now and what is available to them if for some reason the pension plan were to terminate.

We also support the principle of the excess-interest approach as an economically viable way of permitting a degree of inflation protection for that kind of pension, providing that suitable divisions of the excess interest between current pensioners and current employees can be arranged.

In a recent survey, COSB asked its members which of four pension policy options they preferred. Sixty-three per cent of members in Ontario supported the current balance between tax-financed public pensions and voluntary private sector pensions. Mandatory private pensions in two forms, one the PURS program, second, a mandatory private pension contribution of some kind to any retirement savings fund--those two options were supported by a combination of 24 per cent of members questioned and a significantly expanded CPP was preferred by only 13 per cent of members voting.

This result is not surprising. A voluntary approach to private pensions permits small employers to strike an appropriate balance between cash, deferred salary, and noncash benefits in shaping their compensation to local and industry conditions. In many areas where there is fairly heavy competition for employees, shortages of skilled employees are one of the most continuing problems of small business people.

2:30 p.m.

Most employers and most employees will opt to get a comparable cash takehome salary before they opt for other benefits. The exception to this tends to be in cities with a very heavily unionized population, where there is an expectation of benefits as

part of the way the community functions. In that case, it is essential that employers have the flexibility to determine what is most appropriate in their industry or in their locality.

Smaller owner-managed firms are more likely to opt for money-purchase pensions or direct contributions to employee RRSPs or group RRSPs than for defined-benefit pensions. These plans are far less costly from an administrative point of view. They have the advantage of flexibility, greater portability and immediate vesting, and some degree of employee control over the value and investment of contributions. The economy and simplicity of such plans make them particularly appropriate for small firms. After all, when you only have a limited amount of cash to put into benefits, who wants to spend it on administration or on padding the payrolls of insurance companies?

COSB recommends--and I know that this is not in your jurisdiction but we hope that you might consider it as a possible recommendation--that the federal government expand the limits of contributions to RRSPs in recognition of their importance to the retirement savings plans of individual Canadians. We believe that the $5,500 limit should be indexed on the same basis as personal income tax exemptions and that there should be greater allowance for past service in the case of a company which is just attaining sufficient cash flow to look at benefits and has older employees for which it would wish to make additional provisions.

There is clear evidence that a very large percentage of those small firms that do have systematic contributions to their employees' benefits are ones that have been in business for more than 10 years. In a survey done by COSB among its membership, fully 75 per cent of all members who had some kind of systematic contributions for employees, retirement savings, had been in business more than 10 years and this rate, speaking relatively, was three times the rate of companies that had been in business fewer than 10 years.

We think that says something, that when people are not well established, obviously pensions are less a priority than when they are established and have the opportunity to put additional cash that may be available into those programs. Obviously companies that have been around for that length of time have a greater likelihood of being profitable.

The range of investments permitted individuals through their RRSPs, whether they are individual or group, should be expanded to include investments in small businesses and non-arm's length investment. Obviously with a group RRSP there would be some limitations, but in terms of individual RRSPs we believe that individuals should have greater freedom in terms of the investment of that money in order to break free of some of the rules that tended to lead to greater financial concentration in this country.

The Canada pension plan, financed on a pay-as-you-go basis, is in practice a payroll tax supporting some of the current needs of Canada's elderly. The select committee is in fact taking part in an exercise which involves a very large political dimension and one of the biggest parts of that political dimension is that most

Canadians really don't have any idea what the Canada pension plan is. In fact, I think if most of you went to your constituents you would find that a majority of them feel that in putting aside that 3.6 per cent of their payroll to an annual maximum, they are actually putting money aside for their own futures. Well, nothing could be farther from the truth. Few Canadians will resent paying a fair tax to contribute to the wellbeing of Canada's current pensioners if this is made clear to them, but we believe that the current situation almost amounts to misrepresentation.

We believe it will be easier to discuss pension policy with the Canadian people when the facts are on the table and when they have a clearer understanding of what is at stake.

In conclusion, the issue of pension coverage and the management of Canadians' retirement savings are extremely complex. It is politically tempting to recommend solutions based solely on sweeping humanitarian principles, but we believe that this would ignore both the economic reality and the interests of future generations.

Policy makers, both in the public and the private sector, must avoid looking to the kinds of quick-fix solutions that will tie the hands of governments and taxpayers for years to come without providing them with the means to meet these obligations. A sound, responsible, compassionate policy on pensions should be based on the principles of individual ownership of retirement savings and the preservation of a dynamic balanced economy capable of paying current pension costs without mortgaging Canada's future.

It is a big job and it is one that of necessity requires a degree of accommodation, both for small businesses, for ordinary employees and for government in its own revenue structure and we hope that, as you have conducted your hearings today in a spirit of inquiry rather than of partisanship, you would consider these things and come up with recommendations that reflect the enormously broad nature of the problems and challenges we all face.

Thank you very much, Mr. Chairman.

Mr. Chairman: Thank you, Mr. Hale.

Mr. Williams, did you want to start off?

Mr. Williams: Yes, Mr. Chairman; through you to Mr. Hale, if I might. Your organization obviously supports that option to stay within the private sector and the voluntary private plan. What degree or element of mandating would you see necessary to be applied to that approach if we are going to establish a degree of universality within the area that has the greatest need for addressing, that is the people in the small business sector where perhaps they are people who are the least able, up to this point in time, to cover themselves with a reasonable degree of pension protection?

Mr. Hale: We get into somewhat of a semantic problem when we talk about legally mandating voluntary solutions.

Mr. Williams: That's why I said some element of mandating. There has to be some balance here.

Mr. Hale: I think the challenge we face is providing the incentives to do whatever we do in such a way that we are not actually going to be mortgaging our future to pay for current pensions.

One of the ideas that has come up in our discussions--and we don't believe that it would be a great deal more expensive than, for instance, expanding the Canada pension plan; in fact, in the long run, it might be far less expensive because it makes for a better use of the money--is to provide a tax incentive to smaller firms that make systematic contributions to the retirement savings of our employees.

Looking at the coverage as it exists now, there is obviously a very great problem with people with fewer than 20 employees who have been in business fewer than 10 years. In many cases, these people have not yet got to the stage where their companies are making a profit. As such, they are trying to pay competitive wages in the marketplace.

If you look at the situation which exists when the federal government, all of a sudden, said it would tax employee benefits in the private sector, both private and public sectors for that matter, such as extended medical and dental plans, group insurance and so on, the biggest question I think for the taxpayer or the public service unions or private service unions or the government is where does that buck stop?

2:40 p.m.

We are going to be very interested to see whether the public service unions manage to extract that $200 or $400 or whatever it is from the provincial government in compensation for this taxation of their benefits. If that is the case, it is reasonable to assume that if there is any kind of mandating of pensions the people with the market power, large public and private sector unions, will in effect extort that bargain--again it is a matter of semantics--from their employers, and smaller employers will either have to parallel that payment in some measure or find themselves falling farther and farther behind in their ability to pay competitive wages. We are concerned about mandating. Perhaps, Don, you might have some words to say on that subject.

Mr. Anderson: I might just introduce myself. I am Don Anderson, consulting actuary. I am a small businessman myself and special counsel to COSB on pension matters.

During the last couple of years I have found myself very heavily involved in trying to find venture capital for a client company, so I learned a little bit about the problems that are faced, and it becomes evident that this country is very poorly equipped to provide venture capital for the establishment of new business or the expansion of existing ones. The banks simply say no, period.

Government agencies have so many restrictions and conditions that it is a complete waste of time to go from one department to another and one program to another. In any event, they will not provide venture capital unless the bulk of the capital comes from private sources as distinct from government, so we are back to private sources. There are a handful of venture capital companies in this country. Some of them are better equipped to handle new ventures than others, but the available resources are rather limited both in human terms and in financial terms.

The tax system discourages them to a great extent, or fails to encourage, and the contrast between what is going on here and what is going on in the country to the south is incredible because we had a great many dealings with both sides of the border and we find that on the other side of the border these venture capital people say yes on the spot and start to work out the details, when Canadians say no.

Mr. Brandt: Excuse me. Is that primarily through the bank system?

Mr. Anderson: I said the banks say no.

Mr. Brandt: No, I mean to the south of us.

Mr. Anderson: Venture capital firms, venture capital specialists; not banks.

Mr. Hale: So the bottom line is what kind of a recycling process we have and, unfortunately, in the past we have tended to take a chicken-and-egg approach, have government take the money now and decide how to recycle and redistribute it later. Quite frankly, we believe that unless the problem of preventing a further concentration of financial power is dealt with first, we will find the government having a larger and larger and larger stake of the pie used for basically political purposes, and the opportunities of individuals narrowed down to the point where, as Don says, they are being driven to outside sources which are very unresponsive, if anything, to their own needs.

Mr. Mackenzie: Do you think we could extort some of the money in the large banks for use in venture capital?

Mr. Brandt: I knew you would use that word at some point!

Mr. Hale: I understand there is a proposal extant from the federal New Democratic Party to place a windfall profits tax and recycle that money through the government to various politically deserving groups, of which I hope one will be small business.

We would prefer to see some form of interest rebating, frankly, because we think the interest rate spreads are more than perhaps they need to be, even given the relative uncertainty of future interest rates.

Mr. Mackenzie: (Inaudible) profits in effect, referring to the banking system at least?

Mr. Hale: They certainly have been the single greatest beneficiaries of current interest rate policies. There is no doubt whatsoever about that.

Mr. Williams: Just coming back to the main point I was trying to get your response to, Mr. Hale, on this matter of coverage, with PURS we see the element of coverage there, a degree of universality. We have the unique feature that the money will stay in the private sector as compared to CPP, but with the voluntary plans, unless you have some floor, which probably can only be achieved by some application of mandating, how are we going to be assured that there is going to be adequate coverage? That is really the big concern of this committee.

Mr. Hale: First, unless you do it from day one somebody walks in the door, you are not going to have universal coverage for two reasons. Perhaps to a greater extent than larger firms--and I do not have any hard statistics on this, but people who are in the personnel business suggest this to me--there tends to be a higher turnover in the small firms than in larger ones. The other aspect is that if you build in too high a nondiscretionary set of payroll taxes, whether it is Canada pension, unemployment insurance, in some cases OHIP--although it is discretionary whether the employer pays that or not--and other factors, and in Saskatchewan they are talking about the accident and disability program, in addition to that there is workers' compensation and on and on and on.

At that point a lot of employers start saying, "If somebody is not absolutely essential to have on stream, I am far more likely as a small employer to say, 'Isn't it possible to have this person on a contract basis so that he or she is not formally an employee?'" This is happening to an ever greater extent. It is very difficult to legislate against, and if anybody did legislate against it, it would probably go underground.

So if an expansion in the mandated floor of retirement income coverage is put in there without some counterbalancing feature to manage the loss of cash flow, perhaps through a tax credit, the result may be that the very people you are trying to help the most, the lower and middle-income people, the marginally employed, the highly mobile employee, may in effect lose out in spite of the goodwill of everybody involved. It has happened in the past, it is happening perhaps more today than it ever has, and if what we see happening right now is any indication, that sort of thing will continue to grow.

Mr. Anderson: I might just add a footnote. Much as we might want to be concerned about pension coverage, there is one more aspect of coverage that is to my mind more important, and that is employment coverge. When we see eight and 10 per cent unemployed, where is your tradeoff between having a high proportion of unemployed but all of them with pensions, or a much lower proportion of unemployed and maybe a lot of them without pensions?

I think what COSB is saying is we must do a great deal more to help the small business sector to create employment, to fill in that gap. Pensions have to be a second priority after jobs, and the

needs of small businesses for financing and for management assistance and various other things. Those are very important needs in this country. The comment we had a little while ago, should the banks do it, I think the banks are really inappropriate for it simply because if you are one of the six major chartered banks and you have a major investment in a technology that is 50 to 60 years old and is going to be replaced by the technology of a new small business that is coming to you for venture capital, I think you will say no out of self-interest.

What we have to do is create more power centres in this country, or more diffuse powers, so that we do not get locked into old technology, so we have to see greater diversity.

2:50 p.m.

Mr. Hale: We are encouraging our members, where they have the resources--the availability of resources is critical here--to look at various defined contribution plans, contributions to RRSPs, so that where they have the resources they can make these provisions.

We have taken a close look at the Ottawa-Carleton Board of Trade's plan. We understand they are negotiating with the Ontario Chamber of Commerce now to take up that problem. That is something we would strongly encourage, because it would provide a measure of protection in a form which is readily available to small business. It would be far more manageable, because it doesn't automatically siphon away funds from the capacity of the business to survive.

Mr. Williams: The Ottawa group is coming before us I think next Friday. We understand they do have an interesting proposal to put before us.

Mr. Hale: It is probably the best plan we have seen to date in terms of meeting the needs of both the small business owner and employee, and as such it is something we believe should be encouraged.

Mr. Williams: Do you see any merit in the concept that an employer must offer some form of plan to employees, whether it be an investment in an RRSP or whatever, with the option being left still with the employee to invest or otherwise?

Mr. Hale: In other words, what you are saying is should the employer be willing to match anything up to a certain level that an employee wanted to put into an RRSP?

Mr. Williams: Yes.

Mr. Hale: I don't think you can apply that universally, simply because many businesses for the first four or five years don't know if they are going to open the doors a month from now, let alone offer a pension plan. I think perhaps for companies who have been in business an extended length of time or who have more than a certain number of employees it is something that might conceivably be manageable. But the problem with saying everybody

does it is that you start to create barriers to businesses getting to the point where they can create the kind of sustained opportunities to make that benefit of some value.

Mr. Gillies: Mr. Hale, through the course of this committee's hearings I think the members of this committee have identified as one of our major problems the question of coverage. I see through the poll you have done of members in your organization--and I say this in by no means a condemning tone--I just note that about 77 per cent of your employers do not offer a pension plan to their employees. I can well appreciate a number of reasons why that would be so.

But what I would ask you is, if you would offer any guidance to us as a committee as to what we could recommend to our government that would make it easier for your members to offer some sort of pension plan to their employees. I don't know what it might be, but I wonder if you might have some suggestions for us, because this is the single biggest problem we face.

Mr. Hale: One approach might be a refundable tax credit. I don't know if Frank Miller has the money to put that into his next budget, next four budgets, but that is probably something that would have to be worked out with the federal government. We have come to the situation where the jurisdictions overlap rather badly.

The biggest obstacle to a defined benefit pension program is the federal regulations that prevent significant shareholders who would be the prime beneficiaries--in other words, any company with fewer than 10 employees in which the owner or members of his or her family had been around long enough or had significantly higher salaries, what they would be putting in for themselves would equal or exceed that which their employees might put in. That is one thing that needs to be dealt with.

Another would be more incentives for RRSPs.

Mr. Gillies: Certainly, the federal government went in exactly the opposite direction to that.

Mr. Hale: Precisely. It is the same principle as taxing the benefits negotiated by trade unions. This is the small business's way of providing benefit programs and suddenly, because the owner of a business wants to provide for himself or herself, this bolt of lightning drops from the Minister of Finance that says, "You are taking advantage of the system." That's nuts. A person goes into business for himself, and if he tries to make provisions for himself and his employees at the same time, he is penalized.

I think the attitude that because the small business owner has something to gain, something should be outlawed in regulation. I think that is an attitude that has to be dropped by certain parts of the federal civil service, and even the Ontario civil service, before they can see their way clear to providing the kinds of incentives we need. Don, do you have any further comments?

Mr. Anderson: I do. My own company adopted a pension plan about five years ago and submitted it to Ottawa, and of course it was refused because of the significant shareholder rule--more than half the benefits would be for myself. So we now have a pension plan that does not exist. We know that this is happening. We knew before we submitted the plan that it would be turned down. We just wanted to go through the experience of being turned down. So I am not really inclined to set up a pension plan for everybody in the firm other than myself.

If you want to criticize me for that attitude, go ahead, but that is the way I feel about it, and I think that attitude is shared by a lot of small business people. I think that until the rulings of Revenue Canada are changed so as to permit this--they did permit it for one year, in 1980, I believe, and then they pulled back from it--until they really get that issue firmly resolved, I think you will have a real problem extending coverage to small businesses.

Mr. Gillies: I am trying in my questioning not to be provocative, but as a nationwide organization can you suggest to me any possible thread of reason that would have run through Mr. MacEachen's thinking when he brought in the budget last fall that would tell me why at the same time that one branch of the federal government is saying that the biggest problem in the country is pension coverage, another branch of that same federal government would be removing one of the prime incentives to the individual person taking out an RRSP? Can you suggest to me any possible thread of reason that would run through that type of policy making?

Mr. Hale: Well, there is an axiom in dealing with government that you should never attribute to malice what can be adequately described by stupidity. I am not ascribing that to this committee. As I told you gentlemen, I feel that your approach to this entire subject has been most constructive.

I think the biggest problem is that the ministries do not talk to one another--that is true of any government--and there is very poor co-ordination. Secondly, there have been suggestions, and I do not know what amount of credibility to give them, that there are those within the government who would like to make an expanded CPP controlled by the federal government, and used in the same manner as the Caisse de dépôt in Quebec as a financial instrument to give the federal government practical control over all the major industries in the country.

By removing various private instruments that are available, they could speed the day when that would be the only alternative. Canadians would run to them for help and they would have all this money floating into their hands. I do not know the extent to which that would be the motivation for that.

Mr. Chairman: Mr. Bentley had a question he wished to put to you, if that is permissible, and I would suspect it might be.

Mr. Bentley: I take you back to your paragraph five and the sentence in the middle of it that says, "A number of studies on

the venture capital needs of small firms suggest that there are considerable barriers to the use of institutional funds" and so on. I think, Don, you are aware that I have been promoting the utilization of at least a portion of the pension funds in the venture capital area for the last five years and have fallen flat on my face.

Mr. Anderson: I think you are aware I have been doing the same.

3 p.m.

Mr. Bentley: I would like you, if you would, first of all to describe some of the barriers because, you know, there are no barriers under the Pension Benefits Act. You have a basket, which I think is more than adequate to permit institutional funds to be invested in so-called high-risk investments and so-called venture in everything from R and D to whatever you want to do.

It has always been there and it has never been utilized, in my view, to the extent that it should have been utilized except to hide mistakes of the institutional investor. Could you enlarge on that a little bit for the benefit of the select committee because I know that it is not being used to the extent that I think it should be used.

Mr. Anderson: I appreciate your concern and I share that very deeply. It has been one of the things I have been really working hard on to see how this can be rectified. The mere fact that there are no barriers to do something does not make it happen.

Mr. Bentley: I realize there are no barriers in the law. The barriers are someplace else.

Mr. Anderson: The barriers are someplace else, yes. When I first started asking questions seriously of pension fund managers in this area, I was told very quickly and straight from the shoulder, "It is a people business, not a money business." That the movement of pension money into venture capital and high tech requires the setting up of certain types of organizations that have the right kind of people in them, who know how to put those deals together. It is a rare type of skill. It is a skill that some people possess but it is not being used all that much.

But it is a skill that could be cultivated, so I conceived of the idea of a series of organizations across the country which would exist to provide exactly that function of seeking out ventures to put pension money in, and vetting them and setting up the conditions under which the thing would work, and then going to the pension funds and saying: "We have done all the groundwork. We know what is involved. We recommend this and we have the personal credibility and reputation that we know that this is a good investment for you and we think you should try it."

I think the larger pension funds are very ready for this. In fact some have allocated a certain part of their portfolio for new ventures in high tech and are just looking for somebody to help

them do it. I would like to see that happen, but I think it takes more than just simply not prohibiting it. I think you have to sort of bring people together and say, "How are we going to do this?"

Mr. Bentley: Could I just ask one more question? This is what I was leading to, and this is addressed to both of you, Geoff and Don. You are advocating it, I know I agree with it and it is permissible now. Are you suggesting to the committee that in some manner this might be more or less mandated? Like Mr. Williams, I do not like the word "mandated" just now, but how else would you give direction?

Mr. Anderson: In lots of other ways. I think it can be encouraged by setting up channels through which it can happen. This is far more effective than mandating. You can mandate $1 billion a year to go into new ventures in this country, and the people will sit there and say: "How do we do it, how do we choose, how do we set up appropriate types of relationships with these ventures? How do we select the ones that are good and the ones that are not so good? How do we monitor them once we are in them?" It is an organizational job and I think that you almost need to have a special task force on the diversion of pension fund money into new ventures and bring to it some of the best minds of this country to see how best to do it.

Mr. Bentley: In other words, you are saying that you think there is a role of government in bringing these people together in some way.

Mr. Anderson: A government could be the catalytic agent, and it would be very welcome, I think, so long as government does not try to run it because I think that really would not work. The venture capital people, both the receivers and givers of venture capital, really feel that the decision should be theirs to make. But to be the catalyst to bring them together and say, "Why do you guys not figure out a way?" could very well help. I am not saying none of this is going on. There is a handful of venture capital companies that are doing it. It just needs to be expanded greatly.

Mr. Hale: The principle at stake here is very much the same one that is in play in successful regional development programs or management assistance programs whereby government attempts to direct assistance to small business. I use that phrase "direct assistance to small business" because there is a certain arm's-length process at stake. There is a climate of almost mutual incomprehension between the people who run government programs and the people who run small businesses. It is partly psychological and partly organizational, but it is a fact of life.

Government programs that have succeeded in bridging that gap have been ones that have found intermediaries, in many cases professional management consultants, in other cases, chambers of commerce or places, as Don says, that can play a catalytic role so that the culture shock between small business and government can be overcome. That is an essential part of any mechanism to recycle institutional funds to small business.

It could be accomplished by brokers, of which there are quite a few in the market; a good number of them are very reputable and have a find track record. It requires people who take new ideas or take existing businesses that need financing and serve as the professional intermediaries in terms of making the fit between what a small business is about to do and what a financial institution, a pension fund or government agency is prepared to accept. That is something we as a society have not done all that well in the past, but we are improving. It is an area that could be used to far better advantage.

Mr. Bentley: You know this has been a baby of mine for a long time and you know I have fallen flat on my face every time I have made the presentation.

Mr. Chairman: You have the scars to show it.

Mr. Bentley: Damned right I have.

Mr. Chairman: Thank you, gentlemen, for coming and for taking the time for the preparation for today and for the written material you have been good enough to file with us. I am sure it will of great help to us in our deliberations. Hopefully, what comes from the committee will be constructive and acceptable to all segments of the population.

Our next witness is Mr. Ross Rigney. Could you come forward please? For the record, sir, we should have your name as well.

Mr. French: David French, Simpsons-Sears.

Mr. Rigney: We thank you for the opportunity of appearing in front of the committee and finally getting here, after having got crossed up in September and ended up in Ottawa instead of here on another problem. However, you are understanding and we appreciate that.

I asked David to come with me because I thought he might like to make some comments as well as answer any technical questions which he may be more accustomed to answering than I am. I have submitted a brief. I am wondering if I should read it or assume that people have read it. I would be prepared just to cover the recommendations.

Mr. Chairman: Whatever you think. It might be helpful if you wish to follow that brief and read it. It is Exhibit 98. You can touch the highlights or whatever you wish. Some of the members looked at it over the noon hour.

Mr. Rigney: I will just cover the area of introduction and recommendations, and then we could go on to questions.

The role of the private sector employers: I believe the objective of providing Canadians with satisfactory retirement incomes can be achieved within the current social and legislative framework whereby private sector employment pensions will provide a

significant proportion of the total retirement income of Canadians retiring in future years.

3:10 p.m.

I also believe that, in the long term, governments in Canada should aim to limit their role to providing for basic needs through income security. However, temporary measures are necessary to protect the income of elderly Canadians and particularly the current generation of retirees while private sector plans mature. Such temporary measures could include improvement in the level of benefits granted under means-tested programs such as guaranteed income security or improvement in old age security benefits. If the latter vehicle were chosen, in order to contain the cost of the program, I would also recommend that the improvements to Canadians on above average incomes be taxed back at 100 per cent.

I would endorse repsonsible measures taken to encourage and strengthen the role of the private sector in providing retirement income above that required for basic needs. My general recommendations will follow with more details contained in the succeeding sections:

1. That employers with existing retirement income arrangements be encouraged to modify and build on their existing plans to include adequate provision for vesting and portability of benefits, survivor benefits, post-retirement adjustments to prevent substantial erosion of real incomes by inflation. Detailed recommendations on the above issues may be found in the following sections. I do not consider the issue of standardization of plan design important in relation to the issue of providing Canadians with satisfactory retirement incomes. Employers should be encouraged to build on their existing framework, whether this be a money purchase or defined benefit arrangement.

2. That all employers be encouraged to extend retirement income benefit plans to all employees with durable service relationship. Accordingly, I recommend the mandatory pension plan system for Canada with the qualification that the funding and design of pension arrangements remain in the private sector. Thus, I would support legislation that established minimum criteria for pension arrangements that all employers would be mandated to meet, and offers tax credits to small businesses to partially offset the cost of providing pension benefits. Irrespective of the manner of extending pension coverage, mandatory or voluntary, I strongly endorse the principle that flexibility in the design of retirement income arrangements be maintained and that a choice should remain as to whether basic pension benefits are money purchase or defined benefit.

3. That efforts be made by all governments to co-operate in designing a uniform approach to benefits legislation in Canada as it pertains to regulating employement pension plans. Recent experience in Saskatchewan proves how desirable a uniform approach would be. To my knowledge, most major national employers with Saskatchewan employees have reacted to that province's legislation by planning to either formally split their plans into Saskatchewan

and rest of Canada components or informally split by amending their plans to offer separate benefits to Saskatchewan employees.

Divergence in legislation will lead to divergence in pension benefits for Canadians depending on the province in which they live, even if they work for the same employer. Such a scenario is bound at best to restrict the mobility of labour at a cost to the nation's economic health. At worst, it would cause major Canadian employers to retreat from the field of national benefit planning leaving them instead to react by province to piecemeal, politically motivated legislation.

I would cite Saskatchewan as a example where government avoided the major issue, viz., coverage for the majority of its inhabitants who are not enrolled in employer plans. By legislating costly improvements in existing employer plans without tackling the issue of coverage, the Saskatchewan government actually reduced the likelihood of an expansion in coverage through the introduction of new plans.

4. That government recognizes that the total funds available for compensating employees, which includes funds for pension benefits, are directly related to productivity of Canadian businesses. If changes to benefits legislation require additional benefits, the costs must not be so burdensome or the change so abrupt as to disrupt healthy economic activity or jeopardize the competitiveness of Canadian companies vis-à-vis their foreign competitors.

At this point, Mr. Chairman, we would be prepared to react to questions and comment.

<u>Mr. Williams</u>: You touch on one point that I raised by way of a question to the previous delegation that was before us: the concept of using the private sector on a "voluntary" basis, and yet, within that framework, using that as the vehicle for establishing, as you say on page four, the minimum criteria of pension arrangements that all employers would be mandated to meet and in an exchange offering a tax credit.

How do you visualize the mandating? What floor would be used to establish a system whereby the employer would have to offer, I presume, some form of pension portfolio without the employee necessarily having to adapt to it?

<u>Mr. Rigney</u>: At the time I was involved in the writing of this we were looking at a provincial universal retirement system type of approach as being a minimum standard, and we would build, then, from that point. If that were the only pension plan the employer had, then it would be the minimum, or it at least would be the floor of an existing new plan.

<u>Mr. Williams</u>: So you would use basically the criteria that are defined in recommendation 40 or 45, which gives us the framework of the PURS plan, as the base, but without the actual implementation of a PURS plan: leave it in the voluntary private sector?

Mr. Rigney: Yes.

Mr. Gillies: So this is beyond assuming opting out. You are assuming that PURS is not mandated per se.

Mr. Rigney: That's correct.

Mr. Gillies: I might just say I'm sorry. I don't know if I'm in order or not, Mr. Chairman. We had discussions in this committee last week in which the feeling of a number of members on the committee was that if we brought in PURS there would be the capacity for employer or employee groups to opt out if their plan already in place presumably was beyond the minimum standards set by PURS, but I think we were still thinking at that point that PURS would be mandated with a very large opting-out component. Now you're suggesting that if it were a standard that was suggested by the government perhaps the mandating would not be necessary.

Mr. Rigney: I guess that would be an ideal beginning point, but I think that at some point it might very well be necessary to mandate.

I guess I didn't quite understand your question at first. Mandating is a component that I think is necessary. I believe today that if we didn't mandate in some of the plans that are at present in the private sector--in other words, they're a condition of employment--people simply would not choose to be in them.

Mr. Williams: That's our biggest problem: to ensure coverage and yet not to extract it by force. I don't know how you can have the best parts of two worlds without some compulsory element about how we can assure ourselves that relying totally on the private sector will accomplish what we feel is best to be accomplished. That's why PURS is such an attractive feature, although it has drawbacks, too.

Mr. Rigney: I personally oppose government intervention in most areas, frankly, but I think this is one time--on the mandating of pensions--when there is a need for it. Frankly, my own personal feeling is that you shouldn't be able to opt out once you start deducting in any pension plan. I could see a 25-and-one rule instead of a 45-and-one as being a reasonable basis on which we should be operating.

Mr. Williams: What were those formulas?

Mr. Rigney: I could see a 25-and-one--25 years of age and one year's service--as being a reasonable beginning point where you would be unable to withdraw your pension once you start making payments to a pension plan. If you did leave, you would have to, in some manner, protect that particular accumulation that has occurred even if you are under 45 years of age or 30 years of age. The Royal Commission on the Status of Pensions in Ontario has recommended 45. Am I correct?

3:20 p.m.

Mr. Williams: Just five years.

Mr. Bentley: Five years or ten years depending on--

Mr. Rigney: We are looking at two programs all the time because New Brunswick also has a royal commission going on right now and they are looking at a similar regulation to Saskatchewan.

Mr. Williams: As I mentioned, I put this question to the earlier delegation feeling there had to be some element of mandating, if I may continue to use that term, but they would not accept the need for that or the viability of quoting some floor because they felt--and they were representing a small business community as such--that it would drive more businesses under than it would accomplish in the way of securing some long-term protection for employees of these small firms. I could not really draw from them a commitment to support that concept of some element of--

Interjection.

Mr. Rigney: I agree.

Mr. Williams: You clearly agree that element does have to exist.

Mr. Rigney: And I clearly understand the predicament that they are speaking of too. I recognize there is a conflict.

Mr. Williams: That is the dilemma we have.

Mr. Rigney: The long-term conflict is what happens to a person at 65. Where is the income going to come from to pay the pension and how long have they been involved in that commitment to build the pension up themselves?

Mr. Riddell: Therein lies the compromise. The group that appeared before you said it would put a cost on the small businessman that may well drive him out, putting more unemployed people out on the streets. You come along and suggest--and I guess you represent business--that has to be some kind of mandated pension plan. Is there a compromise some place?

Mr. Williams: Is not the carrot the tax credit that he talks about in the second part of his proposal? If they have to pay, at least they will be able to get a tax write-off. I do not know. I should not have interjected but is that not what they see as the compromise?

Mr. Haggerty: That is on page four.

Mr. Williams: Yes, page four.

Mr. French: Mr. Chairman, I would like to add a couple of comments, if I may. Number one, our mandate is only to represent big business. I do not suppose that I can successfully avoid the stigma of being attached to big business considering where I came from but--

Mr. Chairman: Is that a stigma (inaudible)? I never thought of it that way.

Mr. French: I do not either and I appreciate the correction, but there are others who would use the term.

We may come from big business but we are not representing either a corporation or a business viewpoint. Our experience tends to be that of larger pension plans but the reverse side of that experience is that we see a great many of the people who are involved in the pension plans, the retirees, prospective retirees, and the actual retirees.

I think probably their interests are the major motivating factor in the presence of Mr. Rigney and myself. Our interests then are not totally different from those put forward by the small business.

Moving on to the actual question, the bridge between the views that we are advocating and the opposition or the questions, the doubts, that others have lies partially in the tax credit which could be used with a phasing-in program. One of Mr. Rigney's points was the need of the private sector for lead time to respond. Given that lead time, I am confident the private sector can respond at all sizes of operation, the smaller businesses as well as the larger corporations.

Relative to the concern that additional costs, this particular additional cost, might drive small businesses under, I do not recall any massive bankruptcies that resulted following the introduction of the Canada pension plan. I am taking that reference totally out of context because I am not suggesting the extension of the public plan. I believe the private sector can handle the job of providing proper opportunities to accumulate pension income. I agree with Mr. Rigney that we would need, unfortunately, some form of persuasion through mandating.

Mr. Chairman: On page four, you are advocating an additional mandatory plan which would provide the minimum benefits that a provincial universal retirement system proposal would encompass. Am I correct in that observation?

Mr. French: What I am advocating is the establishment, and I believe this is Mr. Rigney's position, of minimum requirements concerning pension provision. I am afraid if that is to become a reality there is going to have to be some form of basic plan provided that employers can participate in who will not or cannot provide their own plan.

Mr. Chairman: If I could take that one step further, I assume as well that you are suggesting that should not be through the Canada pension plan. It should be a separate vehicle, although you are talking about it as a system for Canada.

Mr. French: I would be reluctant to see an extension of the Canada pension plan. I, therefore, have to advocate another vehicle which I would hope could result in a nationwide situation with provision for opting out by employers who have existing plans

or who can, at some subsequent date, introduce their own plans.

I fully recognize that a manufacturer's plan is a long-term proposition, but I believe the problems that we see result from long-term neglect. As a society, we do not have the short-term needs to immediately solve every long-term problem. One of our requirements or challenges today is to move through the commencement of appropriate accumulation to prevent the perpetuation of that--another generation of retirees with inadequate provision.

Mr. Williams: Supplementary to your question, Mr. Chairman: As I understood Mr. Rigney in dealing with identifying what the minimum criteria was, I understood you, Mr. Rigney, to say that minimum criteria did equate itself to the basic framework as far as it relates to the financial consideration of the PURS plan.

Mr. Rigney: A similar type of a program.

Mr. Williams: So there was an element of similarity there as it related to costing that you see as the ideal starting point.

Mr. Rigney: We would see that as a minimum floor. If any plan were better than that, they would have their provision for opting out and providing that plan.

Mr. Cousens: I have heard of Mr. Rigney from other sources. Could you just give me a touch of your own background within the pension industry? Your reputation has gone before you, but just to touch on--your report stands out as a very credible report but for the sake of just giving me a little touch of some of your background, it would be helpful.

Mr. Rigney: I am surprised. I am with Simpsons-Sears, the same company as David French is. I am on the policy end of our particular corporate personnel department, reponsible for the implementation, on a nationwide basis, of pensions among all the other areas of benefits.

I have been rather vocal lately among our own industry. I am not anti-industry but they often do not necessarily reflect clearly how the plan sponsors themselves would like to see things happen. We have been rather strong ourselves in believing there should be a lot more people speaking out on behalf of these particular issues, who are purely layman and not specialists or vested interests as the industry itself is.

3:30 p.m.

Our concern is that we have a lot of people retired who have a problem. A lot of them have a problem because of short service with us and no accumulation of benefits from other jobs that they had in the past. Mr. French is the one who deals with a lot of these people at that date and is very much up front and aware of the kinds of problems that exist. We have had a lot of debates between us that we have carried on outside our company with other large companies in trying to determine what is the best course of action.

We believe a lot of business is prepared to make changes as long as we know the direction that goverment is coming from at the same time, so that we are not making changes today and finding out we are living with another series of changes somewhere else that are going to cost us in another area that is part of the total cost. Most of us agree there is a bottom line on these things and what we can afford to pay for them.

Mr. Chairman: For governments that have been in power so long, it is amazing with that stability the amount of change in rules of the game. I am thinking now of the delegates who were here before you who were critical of the current federal budget in regard to the change of some rules there. I hear you saying that if the rules are uniform and consistent, there is a certain facility of industry to adapt to those rules without too much disruption.

Maybe I have not stated it as accurately as I should, but I am getting that message from you that mandating may be necessary to make sure that everyone plays the game to the same rules and that, if you wait for one company to proceed, no one is going to proceed or they may not. You may find people at a competitive disadvantage or just do nothing.

Mr. Rigney: What we are trying to do is to impress as representatives--we are not here formally representing Simpsons-Sears, but obviously we do work for a large company--and we are a little tired, frankly, of hearing this constant argument that business in the private sector is not interested in making change and it is not interested in really understanding what the problem is.

I can tell you, if you are the person who has to deal with the employee, who has to deal with the employee five years after they have retired, who has to talk to the employee at the personnel counter or in staff conferences, you God-damned well are aware and attuned to what the employees are thinking about.

What the government and the press and the vested interests have done is give a wrong perception as to our concerns. We have a tendency, rightly or wrongly, to pursue our arguments through organizations such as the Retail Council of Canada, the Canadian Manufacturers' Association, and they do so much hammering that automatically everything they say becomes suspect. Maybe their approach is often negative as well.

Our approach is not negative. We have to make changes in the pensions. We think coverage should be changed. We think vesting should be changed. We like the idea of dependant coverage. We think some provision should be made for adjustments after. We have to have the time. We have to know where government is coming from. We have to know whether we can afford it. We have to be able to plan for it. We have to be able to tell our employees basically and honestly what is happening, and what affect it may have if we make the decision to put $8 million or $10 million more into a pension area, what it may do on some other side of a benefit.

We have not had that clear direction from government. We have

had the world's longest debate through a series of royal commissions that I have ever seen on any single issue in this country. We still have no answers.

Now we have provinces busting off by themselves. We have Saskatchewan causing untold problems. Short-term does not look too bad but let me tell you you may have to sit down with an employee 15 years from now and say: "I am going to move you. Here is a job opportunity for you. I have to talk about moving expense, which the government just screwed up the other day with their budget. I want to talk to you about salary. I want to talk to you about the new province you are going to go to. Oh, their pension rules are different. Here is the affect it is going to have on you."

Is that now to be an element because we cannot have some continuity across this country in pensions? Are we going to use that as a basis for mobility? I do not think that is what the intent was. It is just terrible. Now we have New Brunswick--

Mr. Chairman: Or Nova Scotia, I think.

Mr. Rigney: No, New Brunswick brought out legislation in July.

Mr. Chairman: Oh, yes.

Mr. Rigney: It is very similar. I posed the question to their Premier, who was here the other day for a round-table breakfast. The embarrassment was that he could not remember his Legislature had brought in legislation; he was too involved with the constitution debate. But he is sitting there with a major social change on his hands. They are going to reintroduce the bill in January or February. It is very similar to Saskatchewan's, and we still do not know what the rules are going to be. If it is like Saskatchewan, I might add, the implementation date was July 1 and the rules came out on June 26. Many of us had to pay a fortune for consultants to try to tell us how we could change our formulae in our pension plans because everything changed as of July 1 in that province.

Now we have a recommendation from Ontario on how to pay interest, again different from what Saskatchewan is doing and different likely from what New Brunswick or Nova Scotia is going to do. I think we have to sit back and look at this and not use it as an excuse for further delay in coming to some conclusions. I think some head-hammering has to go on across this country. We have to decide where we are going and we better be doing it as 10 provinces in the same way or we are going to create a lot more problems. That is really why we are here; we are just a little mad.

Mr. Chairman: That is refreshing to hear.

Mr. Rigney: We are not professionals who appear before committees.

Mr. Chairman: We are not professionals either, but I think that is the kind of stimulus we are interested in. As a matter of fact, the posture of this committee has been that the

time for talk is just about over and it is time for action. That is why, as chairman of this committee, I have been pushing hard to complete our particular task and get on with the work of pension reform. So it is nice to have you before us to freely and openly express your genuine concerns through practical experience.

Mr. Rigney: We have a company committed to change, but it cannot make the change until it knows all the elements of the equation. That includes what you people are going to do, what the federal government is going to do and what we are doing in nine of the other provinces as well. We have to develop nine plans, but we still have to know all the elements because there is still a bottom line. How much can we afford?

It is the wrong year to ask how much we can afford in view of the way the retail business has had a tough year, but that is an aside. We are committed as a company and, frankly, I do not think we are very different than a lot of the private sector. It is there where the decision is. David is more involved than I am in the two associations, the Canadian pension conference and the Association of Canadian Pension Management. We attend the same meetings and we hear our counterparts talking in the same way. All they want is some direction. They cannot make the changes or justify the arguments to their board of directors for these major expensive changes until they know what all the elements are. Our plea is that I wish people would get off their butts and come to some conclusions.

Mr. Williams: Mr. Chairman, Mr. Rigney stopped part-way through his presentation and asked whether we had any questions, which is turning out to be fatal to his cause. I do not know whether he will get the chance to finish his submission. Perhaps we should give him the opportunity to continue and then pose further questions after he has concluded.

Mr. Rigney: We are quite prepared to spend more time on questions. My brief was not very long, so I thought it would not take people very long to read it.

Mr. Williams: Do you want to carry on from where you left off?

Mr. Brandt: Mr. Chairman, there is one question that concerned me that I addressed to one of the representatives before us yesterday, and that was with respect to the response of the private sector pension market to certain changes, either mandated or voluntary. The group that was before us yesterday represented some 20 different organizations and, I believe, about 7,000 employees. The question I raised was whether or not portability, which was something you addressed earlier in your remarks, was happening in the private sector apart from any mandating or mandatory requirements by way of government legislation.

3:40 p.m.

Would you have any comment on that area? Are you familiar with or are you close to the situation with respect to the private industry? You were indicating a need for and perhaps you were

welcoming some direction from government with respect to what the ground rules are going to be. I think it is fair to say that government is going to move in the form of portability in some fashion because that is a very serious concern of ours and one that you indicated was of concern to you in your remarks, where you suggested employees who were transferring into your company did not qualify for benefits because of a short-term stay with you. Then you had to meet the problem head on some years after their retirement.

What is your comment with respect to private sector response to portability, mandated or voluntary? Do you feel in your mind that it has to be mandated, or do you think the private sector in your experience will respond if it is on a voluntary basis?

Mr. Rigney: David may want to reply on a more formal basis since he sits on one or two committees that maybe will give a broader answer to the private sector. If mandating is what it takes to do it, yes, I would support mandating. We believe in portability. Prior to the disengagement from Simpsons Limited, when The Bay acquired them and now we are on our own as a company, we had an excellent portability plan between our two companies. People moved with full service and it was probably the Cadillac of portability plans--perhaps not as good as the government one but close.

Mr. Brandt: What is?

Mr. Rigney: David may very well want to talk to it. One of the things he is strongly advocating is that on a temporary basis we provide the opportunity for our employees at time of leaving us, whether it be anything prior to age 55 and early retirement, of moving that money into a locked-in vehicle, an RRSP or an RPP, where it would be available at age 60 or 65 whenever they choose to retire.

Because of the difficulty and the types of plans that are out there, I do not believe we can get true portability from company to company. I hear of the insurance companies' portability and I have taken some time to look at that plan because we are in the retail business. Maybe the retail industry should have a portable plan, but every one of us is so different that it would be very difficult to property analyse actuarially what should be going into that new plan. However, maybe the vehicle is a locked-in vehicle of some nature through an RRSP or an RPP where the employee has the right at least to move it and have it working for him at the maximum interest rate on a yearly basis. The ability to do that is there.

David, would you like to comment? I know you are very strong on it.

Mr. French: I would if I may, Mr. Chairman. In part, what I have to say very much echoes what Ross has said. I think in debating this question of pension provision, we can go one of two ways. We can continue to enjoy a vast and glorious debate so the debate itself becomes the objective. That is good for the egos of the participants, but it does precious little for the needs of the

retirees. Or we can decide that we are really committed to recognizing two problems.

The first is the needs of those who are retired. There is nothing, I believe realistically, that the private sector can do for them, as Ross has commented. I think there is a relatively simple series of actions that can be taken by the federal government, albeit with our money, which will meet that need. The second need is the need of those active Canadians who are yet to retire. If we are really intent on giving them the opportunity of providing adequate pensions when they retire, whether these plans are contributory or not, I think we have to take immediate steps to facilitate career-long accumulation.

I am replying to a question about portability here. I have not spoken about portability yet because one of the things that concerns me about pensions is that so many of the different issues are intertwined. Portability is one of the things we have to address. We have also to address the question of coverage. Here we are back to Ross's minimum standards. More people have to be covered, although not as many people are uncovered as some of the statistics would suggest. I think we have to mandate earlier vesting so that people get hold of something to take with them with the minimum interest. That is being addressed. Now they have something significant to take with them.

Now we get to portability, the question of how to take it with them. I think if we have 100 years and more goodwill than I have seen in a long time, we may design some medium whereby your benefits in your company can be transferred to a different plan in a different company. If we are really serious about portability, I believe it should be relatively simple to provide some locked-in third medium, for instance, a locked-in RRSP. For the life of me, I really cannot see how that is difficult.

If I work with company A for five years, because of improved coverage requirements, I have participated in the plan; because of earlier vesting, I have something to take with me; because of a requirement of minimum employer participation and/or proper interest, I have something worth while to take with me and it goes into my RRSP, locked in to pension provision at age 65, and I move to company B and so on through my career.

Canadians are mobile; we do move. We are going to keep on moving, and if we wait until all the different employers settle their difference, it is not going to happen. I am well aware that what I am talking about basically is likely to be money-purchase accumulation but I have yet to be convinced that that cannot provide an adequate pension. I am sorry if that was not too direct.

Mr. Brandt: Could I ask a supplementary? You raised a couple of questions in your answer. One of them is that at the point of portability being necessary, when an employee is transferring, who do you think would be the proper individual or what would be the proper vehicle for making a determination as to the value of the accumulated pension at that time? Do you think it should be the pension carrier, the company in question, or should there be someone else in your view?

There are many ways of arriving at that equation, as you probably know. I am only suggesting, and it has been discussed, that there is a very real possibility--in fact it is not only a possibility, it is a very strong probability--that the company and the employee will not agree as to the value of that particular pension at that point when you package it up and begin to transfer that pension, whatever it might be, to someone or somewhere else. Who do you suggest should be the adjudicator at that point?

Mr. French: I would hope it could be left to the private sector, but my common sense tells me that our adjudicator is sitting right there. It has been done in Saskatchewan, and I am as eager to knock Saskatchewan for some of the things they have done as anybody else, but they have put it on the line. If the individual plan provides more generous provisions, that is fine from my conversations with the Saskatchewan people, but there is a line below which no employer can sink.

There is one other factor if I could just move on from that point. I have heard Ross commenting on this other aspect, but I have not heard the committee responding or recognizing the point, so I would like to emphasize it. It is all very well, and unfortunately probably necessary, to mandate some form of minimum standards for employers' fund sponsors to satisfy in their plans. There is another participant in this pension accumulation, whether it is a contributory or noncontributory plan, and that is the individual himself. It is my experience, working with individuals, that people do not become conscious of the need to start a consistent plan of accumulation until it is too late.

I would hope your committee would bear in mind the need to recognize this human weakness, this inclination, if an individual can get hold of a lump sum, a refund, to spend it, especially in these economic conditions when pressures are very great today. But the pressures of 65 become even greater than today's and the individual has fewer alternatives. Anything that can be done to accelerate locking in and restricting the right of the individual to withdraw money, while I do not like what could be seen as an intrusion on individual discretion and all that kind of thing at age 65. The voice is suddenly turned around and he says: "Well, why did you let me do it?" There is one aspect of the Saskatchewan legislation that I simply can never understand, nor can I get an adequate explanation of it from any of the people in Saskatchewan, and that, of course, is the facility of the individual to withdraw money from his pension plan. Once the money is in there certainly it should at least provide additional pension benefits.

3:50 p.m.

Mr. Chairman: I might just comment that I think the committee is aware of that frailty in human nature, if I can express it that way, and I appreciate that it does involve philosophical argument; but it also involves some practical realities as well, and I think they're mindful of that point you have raised.

Mr. French: At age 65, Mr. Chairman, there's no philosophical argument.

Mr. Bentley: Or when you're forced out of the labour force because of whatever the situation is.

Mr. French: Right on.

Mr. Chairman: Those are the realities to which I referred.

Mr. Haggerty: In the brief you submitted here today you support the mandatory plan across Canada. I presume that you're in the retail trades, are you?

Mr. French: Yes.

Mr. Haggerty: That's right. One problem I find, which has been brought to my attention in a number of cases, is that we have a number of part-time employees who can work for a retail business for 10, 15 and 20 years and obtain no fringe benefits and no right to the long-term pension plan that is available to the full-time employees. I see nothing in your recommendations here that would include this type of employee.

Mr. Rigney: We do refer to that. We refer to it on--

Mr. Bentley: Page seven.

Mr. Rigney: Have a look here. I'm on page seven. That's where we raise the question (inaudible): "to cover all employees with a durable service relationship."

Interjection: Beautiful.

Mr. Rigney: Yes. Our terminology, or our definition--we didn't put our chart on the back--is that "durable" would be, in our particular case, using our company as an example, 2,000 hours' employment.

Mr. Haggerty: That's almost a full year.

Mr. Rigney: It's a year, a year and a half. Quite frankly, though, it would have to be mandated.

Mr. Haggerty: I can recall another private pension plan, and not from the industrial sector. I know of one particular one that has 500 hours a year and you're consider a full-time employee and your pension will be credited for 500 hours. Now, 2,000 is almost a year.

Mr. Rigney: Yes, a year and a half on average.

Interjection.

Mr. Rigney: Well, I think we have to look at this a little more realistically, though. I would say that first of all your--

Interjection.

Mr. Rigney: With all due respect, I think you're a little bit behind the times in understanding the benefits and policy approach to part-time employees. Part-time employees today enjoy a lot of the benefits. I would have to say in fairness, though, that probably no contingents or casual employees have a pension plan in the retail area. But part-time employees, those who work half time, are entitled to the same benefits as full-time employees in the pension area. But that is not the majority of people whom you're speaking of.

Mr. Haggerty: I would suggest that the Employment Standards Act would have to be amended to include something on the pensions here, at least the part-time employees, because there's very little protection there under the Employment Standards Act as it relates to pensions or other benefits. It's an area the committee should not overlook, I think.

Mr. Rigney: You know, as we indicated at the beginning, we are not here on behalf of Simpsons-Sears. But we certainly see the time; in fact, we both personally feel very strongly that we see the time when there will be a pension plan for part-time people. We see that as one of the inevitable things that will happen. There's an attendant cost to it, a pretty substantial cost to it in the case of our company, and I think it's again one of those costs that will have to be looked it in conjunction with whatever changes are made to pensions in general. But I see that as being one of the offshoots.

I have to say that I believe our position will not have a lot of support among a lot of retailers, but then we believe very strongly that this group should have this provision made for it. But I'm telling you now it will have to be mandated, because they will not accept it on the basis of having to participate in a payment towards it. It would have to be a condition of employment for that group of people.

There's another large retailer in Canada that has an optional pension plan for its part-time employees, and less than three per cent of the people have joined it. I think that's a significant figure to understand. You have to understand why people work part time. It's not to have a lot of deductions; it's for income to support a style or family situation. In our particular industry we have a lot of single parents and single people whose last thought is worrying about their pensions.

I asked Dave again today before we came out, "Dave, is it fair to say that if we were to put our pension plan to a vote across Canada today it would be voted in?" His assessment is the same as mine: that it would not be voted in. So I think we have got to keep in perspective the people we have to deal with when you're deciding what kind of legislation you're going to impose in the pension area. Again, the person who sells your program is the companies. We are the ones who have to deal with the employees and tell them it's just another--

I have enough trouble right now telling them what Mr.

MacEachen did to them on their health care plan. You should see the opting out that's going on. Holy God, I can't believe it. We have had in excess of 2,000 people indicate they want to opt out of our health care plan because they don't want to pay any tax towards it. It was fine when it was free, because their commitment only occurred when they had an illness and they had to pay a bill. They had to pay 20 per cent.

But now, all of a sudden, when you're going to get charged a taxable benefit based on not having had any cause to have the plan that year they don't want it. And I think we have to be equally careful when we move into other benefit areas such as pensions that we don't kill the golden goose as far as that group of employees is concerned, because I'll tell you, their real concern is net income, not another seven or eight or nine per cent being deducted from their paycheque for another series of benefits. They really don't perceive themselves as being there to age 65 to--

Mr. Cureatz: Just as an aside, are they going to pick up the Ontario health insurance plan program on their own, do you know--the health plan program if they are opting out?

Mr. Rigney: Well, first of all, we always have had the tax deduction on OHIP, so that is something they have just had reaffirmed with them. We're now going to get, by the way, the government credit for all the damned payroll taxes we take off at the end of the year. We have always sort of lumped it together. Now we're going to break it out so everybody can see, because, quite frankly, a lot of us in management were unaware of what all comes out of there with the group life insurance and the OHIP and so on.

Interjection.

Mr. Rigney: No. That's the sad thing about this opting out, because dental plans are not available for them to go and join. They're just not available like a Blue Cross code seven plan. They're just simply not available to the general public, and the dental plan coverage has been one of the most popular things that most companies have done, including ourselves.

It has got to affect the health care costs of this country in the future if we all of a sudden start losing that benefit, because the bottom line is that companies have to get out of it. And I believe that will happen in time: their health care plans will go by the board if this tax stays on, because the single people simply will not pay it; single parents simply cannot afford to pay that as an additional withholding tax.

Mr. Brandt: What is your company's definition of a part-time employee for purposes of--

Mr. Rigney: We have three categories of employees: We have full-time employees working 37 and a half hours a week, committed to a 52-week-a-year commitment to us; regular part-time people are committed to no fewer than 25 hours a week, up to 37 and a half hours; and then our contingents--we use the term "contingents" or "casuals"--are those employees who work less than 18 hours an week on average, probably around 14 hours a week.

Mr. Brandt: Are the first two categories required to enrol in your pension?

Mr. Rigney: They are required to enrol in all benefits.

Mr. Brandt: You made a comment earlier with respect to the statistics on coverage, and your comment was--if I can paraphrase it accurately--that the statistics are somewhat misleading, and I gathered from your remarks that there were more people covered than may at first appear to be the case. I wonder if you could elaborate a little bit on that. The group you're addressing your remarks to is probably one of the ones that concerns this committee the most in that we're attempting to find a mechanism or a way in which we can cover those people who have inadequate pensions, and obviously those who are not covered are the ones we're concentrating our attention on in great measure. But could you perhaps elaborate on what you meant by that comment? You did say that, I believe.

4 p.m.

Mr. Chairman: Mr. French said that.

Mr. Rigney: It was Mr. French.

Mr. French: Mr. Chairman, now that I'm being asked for statistics I rather regret the comment. However, I think that earlier comment and the discussion that has been going on now about part time and now a definition of part time as a common link, what just came out in the last discussion with Ross is that really the critical thing in pension generation is not part time or full time; it's this concept that he has of durable service relationship. Now, in retail we happen to use a significant number of casual employees, some of whom are more casual than others in their attachment.

The people who work very spasmodically are not covered by our benefits, and, I believe, are unlikely to be coverable. I just don't think you can reach them, and that is one of the groups who work very spasmodically. The group who is unemployed and the group who have chosen not to work, I think the group who are professionally employed or self-employed--these people, I understand, are regarded as uncovered by registered pension plans.

Consider two things. First of all, those who have a low attachment to the labour force tend to have low earnings, and this group is more than adequately covered by the present old-age security, the Canada pension plan, from such earnings as they have had, guaranteed income supplement and the guaranteed annual income system. The low-income people in Canada presently have adequate protection, I believe you will find. The second group who are shown as not being covered are the professional people, who are arranging their own coverage.

Mr. Chairman, that's a very inadequate reply. There are statistics to support this, and I would be happy to submit them to the committee if you wish.

Mr. Chairman: I think that might be helpful, Mr. French. We've already asked Treasury to give us what they can in this regard, too, because I suspect that, while the problem of coverage has been a very important one and there has been a lot of focus on it, and figures like 1.5 million of the work force are not covered by pensions, nevertheless I suspect that it may not be as critical a problem as it might at first blush appear to be. If that's so then we may have to be careful that we don't go overboard in addressing a problem that maybe isn't as significant as one thinks it is and therefore maybe distort the type of action that we should be taking. That's just a feeling without the benefit of any actuarial findings or professional experience.

Mr. French: I believe, Mr. Chairman, that feeling can be backed up, that the lack of coverage is not as severe as it appears. I'm sorry that I don't have the figures at my fingertips.

Mr. Chairman: We would appreciate that additional--

Mr. Rigney: Mr. Chairman, I think there's a further definition of people that might be interesting. We talked of regular full-time, part-time and contingent, but really within that contingent group there are three kinds of groups of employed. About a third of our contingents are of a longer duration; they have got more than 2,000 hours. They're the ones who have got the three, four, five, 10, 15 years' service with us. That group, after 2,000 hours, do get involved in other benefits, but not pension benefits. That is the group that really, if we were to introduce a pension plan for our part-time people, we would attempt to capture and make sure that they were part of the program. Their indication to us is that they're not interested, but it might very well be that they should be involved in a pension program.

The second group is students. I think you would agree that about a third of our casuals are students across Canada and they are just not interested in pension plans and probably shouldn't be at that point. They are attending school or high school and their interest is money and football games on Friday nights when you can't get them in.

The other third is that other group where there is an awful big turnover. The turnover is about 80 to 90 per cent in a year. These are people who come and work eight, 10, 12, 14 hours and decide they don't like our business, the retail business, or things change so there is no reason for them to work or we are really a second or third job that they might have and finally we are the one they drop. They probably average four to eight hours a week. So that group really isn't interested either.

Really the one group we would really like to get to is the group to which we now offer a group RPP, an RSP, an RRSP and an RPP. A number of them have taken that. They buy them because their spouses are already registered in pension plans where they work. We also have a plan for sharing profits. They could participate in that plan on the same basis as a full-time employee because it is salary related, and they get group life insurance coverage.

So the retail business has changed. There are benefits available to these people but, again, the types of benefits that are taken are either ones that still will put money in their pocket right away, such as the plan for sharing profits, where they can see a quick return and where it doesn't cost them any money. But our experience is that when it is a contributory plan, one where they share the cost, there is a reluctance to share that cost. David may disagree, but I believe if we were to introduce a pension plan tomorrow for our part-time people, even a simple money purchase plan, because we have a defined benefit plan, we would have a very heavy turndown in excess of probably 75 to 80 per cent.

Mr. Brandt: I would like to have a supplementary question on that same area of concern. We have looked as a committee at trying to come to grips with the question of defining what a part-time employee really is, or an employee who is probably unique to the retail trade more so than other industries, the permanent part-time employee, for the purposes of looking at possible legislation mandating the requirement for a pension at a particular breakoff point for both the employer and the employee.

Do you have any thoughts as to where that particular line should be drawn? Perhaps by way of giving a little quick preamble to the question, I think you said 25 hours was one cutoff point that you used. I believe in an earlier submission in the fall, we had another retailer tell us that they had a 20-hour cutoff point.

We look at the McDonald's operations, fast-food operations and other types of businesses, where they perhaps have employees who working anything up to 20 hours in many instances at minimum wage and in all probability would not be interested in a pension because of the age group of the employees generally but where there could be a grey area where government should be at least looking at the possibilities of requiring some pension program.

The concerns that we have--at least myself and some of the other members of the committee have expressed this--is that wherever we draw the line, it would be quite simple for an employer--by way of simply avoiding or evading the legislation if we drew the line at 20 hours--to simply hire an employee up to 18 or 19 hours and to simply set some new rules in the operation in order to escape the requirements for pension purposes.

You are probably closer to this than anyone on our committee, and as close to it as anyone we will have appearing before us, and I wonder if you have any thoughts with respect to that permanent part-time category and how we might address that. There is a grey area there where I think some of those people should be covered in some instances, but we don't want to do it in a dictatorial fashion on the part of government where it is not workable or will not be effective in helping the very group we are trying to provide some assistance for.

4:10 p.m.

Mr. Rigney: I think at one time we could easily say we had a 20-hour contingent employee rating. We had a 37-and-a-half-hour week and our breaking point, frankly, although the federal

government does not take credit for it, the Unemployment Insurance Act gives us our breaking point, and that is, they require that if an employee works more than two thirds of a work week, he then becomes eligible for the sick pay plan.

So if you have a registered wage loss replacement plan with the federal government, and you have a sick pay benefit in there that is payable if an employee exceeds the two thirds of that work week, theoretically, by that legislation, they become a full-time employee. That is now our cutoff point. For two thirds of the work week, or 25 out of 37 and a half hours, they are classed as a regular part-time and/or regular full-time employee.

Before I come back and say how I think we can do it, when the government moved the UIC requirement on January 1, 1980, from the 20-hour week attachment down to 15 hours--in other words, if employees worked 20 hours or less a week there was no unemployment insurance deduction for them, nor one for the employer--the government, looking for more revenue, in spite of what its argument was, changed it down to 15 hours and there was a hue and cry saying employers would then try to work employees less than 15 hours and it was going to affect hours.

I would like to assure you we are not that sophisticated to be able to control that. Maybe you can do that in a small family business. You cannot do it when you run a national company, because your needs vary so much from day to day and week to week that you just have not got the time to worry about whether a person is in for 15 hours or 18 hours or 20 hours. All you are worrying about is that you do not exceed whatever that two thirds work week is because of this other mandatory requirement and we get it punched out two weeks late in the computer and it says somebody went over those hours. The bottom line is that our cutoff, as a result, is based on the two thirds work week, as defined by the Unemployment Insurance Act.

I think you have difficulty. You have addressed a very good question which we have never had any in-house debate on. Some retailers look at it on the basis of the minimum number of hours worked in a year as being the criterion as to whether or not in that year you are a full-time or a part-time employee. In our particular case we have not taken that stand. We have said once you achieve that test of 2,000 hours, from that point on everything you do earns benefits based on whatever the salary is. We have not said that you have to requalify every year to make sure you are meeting that time frame or those number of hours.

Whether or not you can mandate that an employer must provide a pension benefit based on anything less than a part-time employee, or let us say 20 hours a week, I think because of the attached costs, companies might become more sophisticated at being able to determine whether or not a person has worked 20 hours.

Mr. Brandt: My guess is that in some instances, perhaps for no other reason than survival, which is a pretty good reason, they may well do that. In other instances, the profit motive alone would, I think in some cases, direct a company to simply hire one or two more employees, spread the hours, reduce the total number of

hours to the complement of employees, and therefore avoid paying any form of pension.

For that reason, looking at it as someone who has been in the business, I have some concern about coverage for those employees, and yet I recognize there are various mechanisms that could be used to simply get around whatever, with the best of intentions, we may decide to do here for a group that is basically not covered, although in some instances should be covered.

Mr. Rigney: I am sorry that we haven't really given this a lot of thought, and I am being a little reactive now. There should be no misconception by your committee, or by any other committee across this country, part-time employees in our kind of industry are not asking for pension plans. There should be no doubt about that. In spite of what you think you have heard, let me tell you as a person who goes out and visits units, holds staff conferences, we have covered 55,000 employees in a morale survey in the past three years, that morale survey did not have any indication from our contingent employees that they want pensions. What they want is more hours of work.

Mr. Cureatz: Was there a question on it?

Mr. Rigney: Yes, there is. As a matter of fact, it refers to a number. The dental plan is ahead of anything like a pension, they would like to get in on our dental plan.

Mr. Brandt: In fairness, none of those people are 65.

Mr. Rigney: Exactly.

Mr. Brandt: That is where we have the problem with them.

Mr. Rigney: That is why I suggest to you we believe that for at least a group of our contingent employees there should be a pension plan but we would have to mandate it to put it in. We would have to make that a condition of employment, that they must be a member of that plan or they are not going to get the participation. We know that.

On the other hand, we should also recognize what the employees are also telling us as to what their wishes are. Their wishes are not for a pension plan, and I think part of it is due to the fact that their spouses are probably registered in one. I think it would be fair to say our average contingent is 38 to 45 years of age, in that area, where they are still not really uptight about their retirement and so on.

I do not think I have given you an answer but I think you are making sure that you do not move too hastily in this area. I think the negative, the downside that you have got going for you, is that we are being told by the federal government that it has a surprise for us and some marvellous ideas. We are being told by your government that you have got some changes coming up. I can tell you that when it is on the back burner it will be the part-time people, no matter how serious David and I might be, and other people and other companies might be, in believing that that group of people

should be covered as well. Again, it is how much money and how much is available.

I personally believe there should be pensions for that group of people, but I think it is going to have to be very carefully thought out how we do it and, frankly, I think it is going to have to be mandated.

Mr. Brandt: I appreciate your saying that. You have not helped me yet in attempting to determine how we are going to do it.

Mr. Rigney: I do not think you can judge it on a weekly basis, frankly. I think it has got to be yearly and I think maybe you have to thoroughly test whether it be 500 hours or 2,000 hours. I think you should do it by consultation rather than tell us after the fact. I am glad that you consulted with me, for a change, in advance of something. I wish some other areas of the Ministry of Labour would be the same way.

I think it is very important that there is this consultation process because other benefits become affected and I think it would be better for us to have a regular means; the group life becomes affected at 500 hours, if that is what it should be, and then forget about that first, and afterwards it does not matter whether they work only 500 hours the following year, or 200 hours.

This year coming up is going to be a tough year, so we are not going to be working the contingents the number of hours we were able to work them last year or the year before, but that should not penalize them if they have already got the 2,000 hours in in participating benefits. They should be allowed to retain those, again being salary-related.

I do not think you want to get locked in, frankly, on a biweekly or weekly decision as to whether that person should have a deduction for a pension. I think it should be a minimum test and from that point on they are in the plan.

Mr. Brandt: Mr. Chairman, I cannot let this opportunity to go by, as the parliamentary assistant to the Minister of Labour (Mr. Elgie). Any time we do have a problem with respect to labour matters, our door is always open.

Mr. Rigney: That is good to know.

Mr. Chairman: And the next time you come he will tell you that they will listen to you.

Mr. French: Mr. Chairman, if I could just add to that, I wish we could get rid of a number of phrases in the English language, including part-time or casual as opposed to full-time, because I think they are emotional and largely irrelevant. I think the key to determining whether or not a person should be contributing, or indeed is interested in contributing, to a pension accumulation is the durability of the attachment.

4:20 p.m.

There are two ingredients in that. One is the number of hours worked in a period; and the period of convenience is a week. Somebody who works four hours a week, no matter how regularly, really does not have a serious commitment to his or her job, and through acceptance of that level of earnings is indicating a pretty low income need. So, probably their retirement provision is elsewhere. I would suggest in your consultation with others, if this is a new subject, 20 to 25 hours is not a bad weekly minimum to be looking at.

The other component of this durability of relationship is a minimum number of weeks worked in a year. I have in mind as a starting point for discussion, 1,000 hours worked in probably a year; I would have to define this. In other words, we are looking at somebody who has worked steadily 20 hours a week, or maybe somebody who has worked six months at full time. Given that minimum weekly number of hours, given the attainment of that block of hours, then the employer should be required to open up eligibility, for purposes of this discussion, to pension participation.

I do not claim any originality of authorship there. I think if you look at American legislation, as I am sure Wells is aware, there is some interesting work already in force there.

Mr. Chairman: Thank you. Did you wish, gentlemen, to carry on? I know we have touched on a number of matters in anticipation of what you might have had to say, but are there are some parts of the remaining brief that you wish to deal with?

Mr. Rigney: I do not think so, Mr. Chairman. Our approach was we would talk on the three or four areas that really concern us and if anyone wanted to refer to the other areas, we were prepared to accommodate them.

Mr. Chairman: I think we have had a pretty good discussion.

Mr. Rigney: I have to say I thought 10 minutes should do it, but I am glad to know that once we warm up, it is easier to talk to one another.

Mr. Chairman: Thank you very much. We appreciate your taking the time to come before us today. We will look forward to that additional information you have undertaken to furnish.

Mr. Williams: Before we adjourn, I would like to say we were given a formal schedule for the remaining period of time the committee was to sit. Has this agenda now been formalized? Is this firm? I notice we are going into three weeks of pretty heavy hearings--Monday through Friday for the last two weeks, and Tuesday through Friday of next week. Have these various time slots for deputations and for deliberation on the report been firmed up? What is the situation?

Mr. Chairman: The agenda is flexible in that there are some changes that we could discuss now, if you have the final revision, dated January 11, in front of you. Mr. White, perhaps you could review those with the members.

Clerk of the Committee: The principal changes to the schedule, which was revised January 11, are that the open space on Thursday, January 21, has been filled by the Council on Ageing of Ottawa-Carleton--

Mr. Chairman: That is at 3:15?

Clerk of the Committee: Correct.

On Monday, January 25, the 11:15 slot will be the Retail Council of Canada. Those are the only changes. I will have printed a revised schedule for Tuesday.

You will recall that we had tentatively scheduled submissions on the January 27 and 28. I have rescheduled all those into the earlier days as was requested. On page four of the schedule, where it shows all the days from January 27 on as "deliberations report," this is simply guesswork on my part; of course, the committee will make that decision.

Mr. Chairman: If I may just comment at this time, I am hoping to touch base with Madame Monique Bégin in the morning.

Interjection.

Mr. Chairman: I can assure you, Mr. Haggerty, it is not for lack of attempt on my part. If you have any special influence in the Ottawa scene, I wish you would prompt a better line of communication.

Mr. Haggerty: I refer to Al McBain.

Mr. Chairman: In any event, I was promised permission to speak by telephone tomorrow morning at some time. I have been very patient. I am hoping that as a result of that conversation, we can dialogue directly with the Ottawa people in regard to the Canada pension plan and I would like to do that both on a technical level and on a political level. After all, I think it is something that is of importance to the federal people as well as to this province.

So that could make the days of Wednesday and possibly Thursday or Friday something different to merely deliberations on the report. I just want to alert you to that. I would rather get a few people to come here than for the committee to have to travel to Ottawa, for reasons of time, convenience and cost. However, if there isn't an option, and I think it is probably important enough to us to talk with them, then we will have to board an aircraft and go to Ottawa for a day or so.

Mr. Williams: Do you feel, Mr. Chairman, that we might have to revert to the original schedule in so far as deliberation on the report is concerned, to the last week of the time frame that we had?

Mr. Chairman: I expect that for drafting recommendations, or at least something that would form the basis of discussion for

draft recommendations, we would not be ready until Monday, February 1.

Mr. Williams: You feel that by Tuesday we should be able to firm that up and get the committee to agree to any change in our schedule.

Mr. Chairman: Yes.

Mr. Williams: The weeks ahead of us are full. I think we should know where we are going and what time we will have available to deliberate on the report itself.

I think if we can get to Ottawa, that will be a real coup--alt hough, as you say, it would be nice if they could come here. However, it would be worth condensing seven days' deliberations into five in order to get in a couple of days to meet with the federal people to d iscuss the all-important topic of what they are doing there. I hope w e can have that firmed up on Tuesday.

Mr. Haggerty: Maybe you would be better off if you can make an agreement with the three parties that one from each party goes.

4:30 p.m.

Mr. Chairman: This is not a committee that has travelled anywhere. We have been very parsimonious about everything but our time. It is not a long journey. We could even do it, I suppose, by bus or train. There are other means, depending on weather and convenience.

It is just that I think with this particular subject matter, and making recommendations in connection with the Canada pension plan, as much as I am reluctant to venture to Ottawa, nevertheless it may be something that we should do in order to complete our work. I say that somewhat reluctantly because my ambition is not to travel again to Ottawa. However, I think we should discharge our responsibilities as fully as possible.

Mr. Williams: I hope we can get the appropriate officials to come down from Ottawa, Mr. Chairman.

If no other groups or organizations have come on the scene since this agenda was drawn up, there would be no further need for days for other than the Ottawa business.

Mr. Chairman: That is correct.

The committee adjourned at 4:32 p.m.

PR-12

SELECT COMMITTEE ON PENSIONS

CANADIAN PENSION CONFERENCE
ONTARIO MUNICIPAL RETIREES' ORGANIZATION

TUESDAY, JANUARY 19, 1982

Morning sitting

SELECT COMMITTEE ON PENSIONS

CHAIRMAN: Taylor, J. A. (Prince Edward-Lennox PC)
Brandt, A. S. (Sarnia PC)
Cousens, D. (York Centre PC)
Cureatz, S. L.; Deputy Speaker (Durham East PC)
Gillies, P. A. (Brantford PC)
Haggerty, R. (Erie L)
Jones, T. (Mississauga North PC)
Mackenzie, R. W. (Hamilton East NDP)
McClellan, R. A. (Bellwoods NDP)
Riddell, J. K. (Huron-Middlesex L)
Van Horne, R. G. (London North L)

Clerk: Arnott, D.

Researcher: O'Mara, Dr. J., Legislative Research Service

Consultant: Bentley, W., Superintendent of Pensions, Pension Commission of Ontario

Witnesses:
From Canadian Pension Conference:
Arthur, J.W.S., President, Canadian Pension Conference
Baldwin, R., Chairman, Union Relations Committee, Canadian Labour Congress - National Representative
Bovey, I.H.D., President-Elect, The Sobeco Group - Senior Associate
Cope, B.H., Chairman, Ontario Region, Imperial Life Assurance Co. - Manager, Pension Investments
Horrocks, G., Chairman, Government Industry Relations Committee
Kennedy, W.L., Past President, Union Carbide Canada - Manager, Compensation
Morneau, W.F., Director and Senior Vice-President, Pension and Actuarial Services

From Ontario Municipal Retirees' Association:
Bruce, D., President
MacLeod, D., Chairman, Ontario Division, Pension Committee, CUPE
Nicholson, L., President, Ontario Division, CUPE
O'Connor, T., Secretary-Treasurer, Ontario Division, CUPE
Ouelette, C., Secretary
Wohlfarth, T., Research Officer, National Office, CUPE

LEGISLATURE OF ONTARIO

SELECT COMMITTEE ON PENSIONS

Tuesday, January 19, 1982

CANADIAN PENSION CONFERENCE

The committee met at 10:13 a.m. in room No. 151.

Mr. Chairman: Gentlemen, we are fortunate this morning in having with us the Canadian Pension Conference, as represented by a number of persons covering a broad spectrum of society: Ian H. D. Bovey, president-elect, the Sobeco group, senior associate; William L. Kennedy, past president, Union Carbide Canada, manager, compensation; Geoffrey Horrocks, chairman, government industry relations committee; W. F. Morneau, director and senior vice-president, pension and actuarial services; Robert Baldwin, chairman, union relations committee, Canadian Labour Congress, national representative; Brian H. Cope, chairman, Ontario region, Imperial Life Assurance Company, manager, pension investments; and John W. S. Arthur, president, the Canadian Pension Conference, from the Prudential Insurance Company of America, vice-president, group development.

I understand these gentlemen would like to review with us some of their observations, especially as they relate to our interim report. Are you the spokesman, Mr. Arthur? If you are the one to lead off, then we are in your hands.

Mr. Arthur: Mr. Chairman, you did save me the trouble of introducing our members, but for those who don't know them, these are Messrs. Bovey, Kennedy, Horrocks, Baldwin and Cope. We welcome this opportunity to appear before the Ontario Legislative Assembly select committee on pensions. We think it is an excellent opportunity to give you the opinions of a very diverse group. As a matter of fact, our opinions are as diverse as our membership.

As of December 31, we had 1,210 members. I do hope you have our directory. We left it with you. Mr. Taylor has it in front of him. So you can get some idea of the diversity of our membership. As I indicated in my letter to Dr. White and to Mr. Taylor, what we would like to do is comment first, if it is your pleasure, on your 18 recommendations, and then leave ourselves open to questions from you.

Before I start, I do want to commend the committee. I thought it was an excellent report. It was easy reading. Having sat in as a listener to some of your previous meetings before the new year, I was extremely impressed with the rapidity with which you people grasped a knowledge of pensions. I realize you have Mr. Bentley up there.

Mr. Bentley: I am also a member of the CPP, John. You have to tell them that.

Mr. Arthur: I will start off by talking about recommendations numbers one and two. We generally agree with both those recommendations and, quite frankly, we are surprised that the federal government has not increased the guaranteed income supplement benefit for single persons to 60 per cent of the amount a married couple receives. The GIS benefit has been moderately increased as of January 1 from $202.94 to $228.63 a month for a single person and to $352.54 for a couple.

I am not sure that everybody is aware that you do not automatically double the GIS benefit as you do the old age supplement benefit. Both of those benefits, of course, are income-related. Furthermore, we recommend that the Ontario government proceed immediately to increase the guaranteed annual income system, which is still at $48.88 for a single person and $147.48 for a couple.

Incidentally, there are some amongst our members who support the Board of Trade of Metropolitan Toronto submission to the Canadian Pension Conference whereby they suggested and recommended that the OAS and GIS be combined, then grossed up 150 per cent and then taxed so that it would provide a more equitable benefit for those in need.

As for recommendation number three, I personally agree with this recommendation. The report of the Royal Commission on the Status of Pensions in Ontario covers this subject in great detail in volume five and I don't propose to go into tha. It is also in the summary of recommendations 24 to 39.

I agree with the funding approach, which is on the pay-as-you-go basis with a contingency fund. I would like to emphasise that in the actuarial report number six of the CPP at December 31, 1977, based on a no-change in current benefits, that is, as the benefits are at present, the payroll tax rates will rise from 3.6 to 4.8 per cent in the year 2000 and to 10.10 per cent in the year 2035 and the CPC fund will be at $34.7 billion. As a matter of fact, it will be frozen from 1995 at that point if we accept this funding approach.

Incidentally, I recommend to the committee's reading, Foreign Experience with Income Maintenance for the Elderly by Harry Weitz. This is an excellent article on social welfare plans, not only in Canada and the United States but in Europe.

Mr. Chairman: I was indicating to the clerk that he might obtain a copy of that.

Mr. Arthur: Fine. I will give him the details afterwards. It is an excellent piece of reading and a real eye-opener. Harry Weitz was with Labour statistics and I think is quite competent in his job. He is very highly regarded by the federal government. He is retired now.

Philosophically, I am opposed to the expansion of the CPP for four very valid reasons. There are others, but the four I have in mind are:

1. You are transferring a cost to future generations. It is intergenerational, and if it is on a pay-as-you-go basis, the costs have got to increase as you get older, because of the population bulge, and we will have a problem.

2. The investment capital will be lost to the provinces. To increase CPP to 45 per cent of earnings up to one and a half times the average industrial wage (AIW), one of the Lazar options would displace $10 billion, according to the report from the private sector. The country, in my opinion, needs capital investment for energy, transportation, housing, industrial development. I would also be quite concerned that the provinces would exercise more direction over private companies, such as Quebec over Dominion Bridge, who now has bought through its subsidiary a controlling interest.

3. Expansion of the CPP is upside-down welfare. If you expand the CPP, those who are going to get the most out of it will be the ones who are making the most money.

4. The rapid exansion of CPP contributions would have to be increased during a time of high unemployment, expected higher taxes, or other measures to reduce the budget deficit, oil, and price increases.

I would like to ask Mr. Baldwin to respond to my comments. This is his opportunity.

10:20 a.m.

Mr. Baldwin: I think John would like to expose you to the diversity of our views right off the bat. I must say I did not come prepared to hear that kind of commentary on the Canada pension plan. However, let me comment on your first three recommendations. I want to indicate at the outset that, like John, I certainly endorse the general thrust of them, which is that there is a need to increase the minimum income guaranteed to the single elderly; that the minimum income guaranteed to a single should be at least 60 per cent of the minimum income guaranteed to couples; and, finally, that the guaranteed income supplement is a preferable way of delivering income-tested benefits than the guaranteed annual income system. All of these, I see, as the main thrust of your recommendations and I support those.

Incidentally, I am especially pleased to see the implied preference for GIS as opposed to Gains, first, because the labour movement has always been very anxious to see the national programs develop in the pension area because we believe that it facilitates mobility both before and after retirement which is important to us. It also gets us away from the problem that where you have a person who is eligible for both GIS and Gains, the effective rate of taxation on his income is at least 100 per cent. In an era when we are reducing the highest marginal tax rates under the personal income tax, it is appropriate that we try to avoid 100 per cent rates of taxation for low-income elderly. All that is to the good as far as I am concerned.

I will raise several reservations. As I read recommendations one and two, they seem to envisage a sequence of events that would involve an increase in Gains that may be offset by an increase in GIS at some future date, which may, in turn, be offset or reduced somewhat by an increase in old age supplement benefits, which is a question the committee is still dealing with, as I understand it. In looking at that possible sequence of events, one of the things that crosses my mind almost immediately is that once the GIS and Gains benefits are increased, there will be a heavy political price to pay in trying to go through the exercise of offsetting those benefit increases through increases in GIS which would reduce Gains or an increase in OAS that would reduce the GIS.

So to some degree, I felt the committee might have been a little better served had they waited to make the recommendation until they worked out the final position they wanted to take with regard to OAS in particular. What would follow from that would be the necessary decisions with regard to GIS and Gains.

Regarding the choice between OAS and Gains, which I gather is still an open question for the committee, I would just offer some observations. One of them is that while GIS has the obvious advantage that if your expenditure budget is fixed, GIS will deliver more benefits to those in need than will OAS, I think that that advantage of GIS has to be assessed against what I see are two drawbacks to it. One is that OAS has an important role to play in the income-replacement system. If you devote all of your resources to GIS, you are not only reducing OAS's role in providing a minimum standard of living for the elderly, you are reducing the role that OAS is capable of playing in providing income replacement to the elderly. That is very important because the value of OAS in relation to the average industrial wage has already declined over the last half-dozen years or so from 20 per cent to 14 per cent. With no further increases in OAS, that tendency for it to play a smaller and smaller role in income replacement will be perpetuated.

The more important concern I have about placing all the resources in GIS is that it does reduce the value of CPP in private retirement income by 50 cents on the dollar. It also reduces the chances that a worker with only OAS and CPP will have a retirement income that moves him beyond the range where GIS is still payable. In other words, the higher the maximum GIS benefit is, the broader is the range of retirement earnings where you will find a worker still having to draw on the income-tested part of the pension system.

It is terribly important to us that workers, when they retire after an adult life in the labour force, be able to get along on OAS, CPP and any private retirement income if they have it and not have to rely on the income-tested part of the system. I might add, incidentally, that that was one of the few areas of consensus at the national pension conference. There was, first, universal agreement that someone coming out of the labour force after a full, adult life of work ought not to have to rely on income-tested benefits in order to get along in retirement. With GIS, we have the problem that every one dollar increase in the maximum GIS increases the range of income over which you will be paying GIS by two dollars because of the tax-back rate.

I have two other quick things regarding recommendations one and two. First, I would invite--indeed urge--the committee to look at the availability of OAS and GIS benefits to adult immigrants to Canada. I raise this point in relation to the amendments that were made to the residents' requirements for OAS in 1978. We have ended up with some kinks in our system as it relates to adult immigrants, which I would invite the committee to look at, and maybe if there are any questions, if you want we can come back to that.

Finally, as far as the minimum income guarantee for couples is concerned, I know from my own work during the summer that the minimum income guaranteed through OAS and GIS alone--now I am ignoring Gains here--for a couple was not capable of bringing the couple above the Statistics Canada poverty line for the largest cities in Canada. In light of that, you may want to review your position, which is that couples are adequately looked after with regard to minimum income provision.

Regarding your third recommendation, which concerns the Canada pension plan, that recommendation deals only with funding. I endorse your recommendation as a long-term, guiding principle for CPP financing. In other words, I think the basic pay-as-you-go plan, with the reserve at least equal to two years benefit payments, is one that I have no difficulty supporting. Indeed, it is the position of the Canadian Labour Congress as well. However, there are a couple of questions you might ask yourself about how we might move from the current situation to a situation in which that principle was being realized in practice.

What I have in mind here is two things. First of all, the current savings that have accumulated under the plan substantially exceed your two-year benefit level rule. In other words, the savings under the plan are now approximately to eight to nine years benefits under the CPP. That does give rise to the question right off the bat, how does this committee want the CPP to move from its current situation to one where it simply meets the principle of a reserve equal to two years annual benefit payments?

There is yet another reason for asking yourself how you want to apply that rule in the immediate future. We know with some certainty that there will be required contribution rate increases in the Canada pension plan if it operates on a pay-as-you-go basis. We know with some certainty what those increases will be for the next 20 years, but with a great deal of uncertainty what they will be beyond the year 2000.

Because of this, it might be desirable, in so far as we know with certainty that we have to increase the pay-as-you-go contribution rate, to phase in increased contributions on a continuous basis over time, rather than get into a situation where you have fairly abrupt increases somewhere down the road because you have not been increasing the contribution rate continuously through time. If you want to phase in contribution rate increases over lengthy periods of time, it seems likely to me that you will face situations where the CPP reserve is substantially in excess of the two-year rule which you have suggested. I think that you should think about the desirability or undesirability of accumulating a reserve with the idea in mind that you want to avoid an abrupt increase in the contribution rate later.

All that is simply with regard to the recommendation. There were two items in the text which I want to comment on. In some ways, I think they may be viewed as a rejoinder to what John Arthur said. As you know, of course, I personally and the Canadian Labour of Congress, as an institution, are calling for a dramatic increase in CPP benefits. There are two things in the text I want to respond to. One is that the text states with quite a high degree of confidence what the required contribution rate to the CPP would be on a pay-as-you-go basis well into the next century.

10:30 a.m.

I want to emphasize a point I made on a previous appearance here, which is that beyond the year 2000 there is a tremendous degree of uncertainty about what the age structure of the population will be and, as a result, what the required contribution rate to the Canada pension plan will be.

In a study prepared for the Economic Council of Canada, Spencer, Feaver and Denton tried to project the age structure of the Canadian population through to the year 2051. Holding all their demographic assumptions except the fertility rate constant--they varied the fertility rate within a band which is actually narrow in relation to how Canadian fertility rates have fluctuated in recent decades--they concluded that the percentage of the population over 65 could be as low as approximately 10 per cent, which is only about 1.5 per cent higher than what it is now, or it could be as high as 25 per cent, which is only to say that the range of possible age structures of the population, looking 70 years down the road, is terribly uncertain and we cannot say with confidence that it will be such and such.

Samuel Rea from the University of Toronto took some of the demographic projections of Spencer, Feaver and Denton and calculated the required pay-as-you-go CPP contribution rate, with the existing level of benfits under the plan through to the year 2030, and concluded that the current plan might require a contribution rate ranging between approximately five per cent and 10 per cent, which again is to say that we cannot say with any degree of certainty what the required contribution rate for that plan is going to be by the year 2030. We can say with a fairly high degree of confidence what it will be to the year 2000. Beyond that point, it becomes highly uncertain.

The other thing that is mentioned in the text is the potential impact of a pay-as-you-go Canada pension plan on savings, investment and economic growth. Once again, I want to remind you that this is an area that has been subject to a great deal of theoretical and empirical debate for the last half dozen years or so. The tide of evidence in that debate is that there is no demonstrable link between the operation of a pay-as-you-go public pension scheme and the levels of private savings out of individual incomes or on the level of gross savings in the society, which includes not only private savings but corporate and government savings as well.

I do not have references at my fingertips for the main evidence, but I think it is terribly important before the committee

becomes overwhelmed by concerns about what a pay-as-you-go pension plan means for savings, investment and economic growth, that this evidence be reviewed because I think there are a great many misconceptions that have been popularized in this area.

Mr. Arthur: Mr. Bovey would like to make a comment.

Mr. Bovey: This is in relation to the question of funding. In large measure I agree with some of the things that Bob is saying about phasing in higher rates of contributions. This is particularly true, I guess, in terms of a long-term secular trend, which is likely to lead to a more generous Canada pension plan over a period of time.

I would like to commend to you the section in the report prepared by the Canadian Institute of Actuaries which refers to the need, regardless of whether funding is done on a pay-as-you-go basis or whatever, for the government actuary at least to calculate on the basis that would be applicable to private plans and to publish the results of these estimates so that the public is aware of what the full and true cost is, as is referred to in the Canadian Institute of Actuaries report, as compared to what the pay-as-you-go costs are. This, of course, is to make sure that this intergenerational transfer thing does not become too big a problem. That is all.

Mr. Arthur: I would just like to comment and put into the record, in view of what Mr. Baldwin has said, that in the Harry Weitz report on page 6, population patterns, right now today the percentage of people at 65 and over as a percentage of the total population is 9.5 and by the year 2000 it will be 12 per cent. You mentioned that figure, but you said it would vary from five to 20. In the United States it is 10.9. I would just like to emphasize that the Ontario royal commission also concusr with these statistics which are published in this. I would also like to point out that by the year 2000 three people in five will be receiving CPP benefits, which I think is something to be concerned about.

Mr. Kennedy: I would just like to speak briefly on the point that Bob Baldwin made regarding the preference for the OAS or consideration of the OAS as an alternative to the GIS and Gains improvement. My understanding is that about 50 per cent of the retired population now is receiving some forms of GIS or Gains and, depending on the particular province, the equivalent benefits that are available.

Increasing the levels, of course, would increase the numbers that would be in receipt of these kinds of benefits. The point that Bob made with respect to income earned from other sources, and particularly retirement income being effectively taxed at 100 per cent, where the two are in combination is a disincentive to the work ethic and the savings motive that we think should be there for the employees and for a population generally to be planning for and considering for the future, rather than the attitude, "Don't worry we will spend it now. The government will take care of us later on."

Certainly from an employer's perspective, the fact that many people are now receiving these benefits is a disincentive to either adding a pension plan, if he does not already have one, or improving a pension plan, or adding retiree benefit increases when, in effect, he realizes that a large percentage of the money he would pay out to the retirees with respect to these programs would be offset either 50 per cent or 100 per cent against the benefits and would be really transferring the savings to one or other of the government bodies rather than to the employees themselves, the retirees, in many cases, not being any better off than they were before that benefit improvement was granted. I think for that reason it is important to consider OAS as an alternate means of increasing the base, with, of course, the tax-back provisions that have been suggested, to remove that increased benefit on a graduated basis at the higher levels.

Mr. Arthur: Mr. Chairman, we will move on to the other recommendations if the committee has no questions, if that is your wish, sir.

Mr. Chairman: I think maybe we should move on.

Mr. Arthur: We will try to move on a little bit more quickly. I would now ask Brian Cope and Ian Bovey to respond to four, five, six and seven. We will take them altogether.

Mr. Cope: Mr. Chairman, those four recommendations all deal primarily with vesting. There is no doubt, though all the issues in the pension considerations are important, that clearly vesting is perhaps the pivotal concern in terms of coverage and its connection with portability and locking in, and those members of the work force obviously who are covered by pension plans. What I would like to do is comment specifically on each of those four recommendations and thereby perhaps raise some questions which the committee might consider further.

Recommendation four suggested vesting after five years service or participation in the plan. It seems to me that it is very difficult to make a recommendation on this without deciding a philosophy of what a pension plan is. I propose for the committee's consideration that at the very least workers consider pensions deferred compensation. By that I mean that they have a right to something for which they are not currently being paid, and perhaps a large segment of the work force considers pensions an absolute right.

10:40 a.m.

If one adopts that point of view, there is no argument against making pensions immediately vested, locked in, and in some way attached to a portability scheme. Of course, the other side of that coin is that pensions are a reward, but I suggest to you that is not the concept of workers today in Canada.

Mr. Chairman: Excuse me, nor management, as I understand it.

Mr. Cope: Yes, I concur.

Mr. Mackenzie: That was almost totally rejected by the management. It always leads me to wonder why the industry itself has not moved much sooner on vesting, at least, which almost everybody has thought of as a problem.

Mr. Cope: That probably does lead nicely to the next point. Mr. Miller said in his speech on November 17 that whatever changes were ultimately enacted with respect to pension legislation, the ability of employers, the ability of the economy to pay, must have high priority. If a change in vesting is to occur, perhaps it would be wise to do it on a scheduled basis over a period of time.

We are at a point in our evolution in our benefit system where we realize we have a crisis more because of the current elderly poor than the current working population, and perhaps we should not be looking at a panacea in 1982 to solve all of the problems which are now raising their heads. We have to look at costs and we have to look at a reasonable implementation period. There are costs to employers and employees if we have immediate vesting obviously.

The concept of making vesting dependent on service or participation seems to me to confuse the issue. If there is a pension benefit and it is a result of deferred compensation, then obviously all plans should, under that concept, be applicable to all workers immediately. There should not be a waiting period. You cannot say service or participation and allow plans to have a waiting period prior to which employees should be covered.

I notice that recommendation number four did not deal with the royal commission's additional recommendation that if a private plan existed, under certain circumstances tenure vesting would be allowed. We look forward to the subsequent report which I assume will deal with the PURS recommendation.

Regardless of the approach which is taken to vesting benefits, it is rather meaningless, or will have less impact and value to the working population, unless the coverage is expanded. As we know, the vast majority of part-time workers are women. Most part-time workers are not allowed participation in privately sponsored pension plans. Therefore, the whole concept of deferred compensation gets twisted if pension benefits are not extended to those people and are not treated in the same fashion. However, employers obviously recognize additional costs if those workers are included in their plans.

The question of portability is also intimately involved with the question of vesting. To have a vested deferred benefit sit idle and unprotected in terms of inflationary impact will become meaningless over time. As we know, employment patterns have changed and probably will continue to exhibit the same experience we have seen.

The use of locked-in retirement savings plans is a viable alternative. However, your recommendation with respect to transferring one half of the vested benefit to a locked-in RSP, in my opinion, perhaps is unwarranted. I just raise the question why the entire benefit should not be allowed to be transferred to a locked-in RSP, the commuted value.

Recommendation number five suggested that the Pension Commission of Ontario review the results of the original change in three years with a view to moving to earlier vesting. We laud that suggestion. However, we would suggest you consider that if a change is made, it be made retroactive. It would appear to me that if your recommendation number four was accepted and in three years the pension commission reviewed it and decided vesting should be changed to something more quickly than after five years, there would be a group of employees caught in a time capsule because the pension commission changed the vesting rules. It would seem to me that retroactivity would offer some equality here.

Recommendation number six dealt with the refund on termination of employment and provided for an assigned rate of return on employee contributions. This moves the concept of a pension plan into the area of a savings plan, and I think the implication of doing that should be recognized by the committee.

Finally, recommendation number seven dealt with dividing the benefit equally between employer and employee contributions. I believe that is strongly supported by all workers and recognized to be equal by sponsors of pension plans across the country.

Mr. Bovey: Very briefly on two areas of general concern: One is with respect to the whole question of administrivia that arises as we move more and more towards shorter and shorter vesting periods. Goodness knows, in this day of the computer, it should be possible for it all to be handled reasonably easily; nevertheless there is a lot of record keeping that goes into this whole area. It would be my personal hope that out of all this discussion can come some kind of simplified system, be it a national registry or whatever, to facilitate the process for those employers who do not have the capability or do not wish to afford to contract out the cost of that kind of activity. That is one area.

The other area of general concern is that throughout my reading of the select committee's recommendations I found no evidence relating to the differences between noncontributory and contributory plans. This applies not only to these recommendations but to a number of others. There are a very significant number of employees in Canada who are covered by noncontributory plans which range in generosity; they have the full range.

The point I wish to raise is that to the extent that many of these plans are generous, the employers are already paying a larger share of the freight than are those employers with contributory plans. The impact of any change is going to be exponentially more costly to them, and yet they are in many ways the employers who have been the best citizens.

I suggest it would be worth while to take a look at the impact of any recommendations on two kinds of plans: those where the employer is footing the whole bill and those where it is a shared cost with the employees. To the extent it seems reasonable, it may be you would take a somewhat different approach with respect to noncontributory plans and contributory plans in terms of perhaps there being a longer vesting period, for example, than for contributory plans to recognize that fact. That is just one example, and I think I am going to get an opportunity to talk about it when it comes to the question of excess interest also.

Mr. Arthur: We agree with recommendations eight, nine and 11, so we do not propose to go any farther than that.On recommendation number 10, we assume you are recommending that the federal government change the Income Tax Act so that registered retirement savings plans could not be commuted. Is that correct?

Mr. Chairman: Correct.

Mr. Arthur: That is fine. Number 12: Mr. Bovey, you have the floor again.

10:50 a.m.

Mr. Bovey: This again is a question. There are many employers who now provide fairly generous post-retirement protection to survivors in the form of life insurance, death benefits and so forth. Those same employers, if faced with a recommendation such as this would--and I think the experience in the United States has proven this--ultimately be led to the position of providing the same benefit level even on a joint survivor basis, which means some additional cost.

I only raise again the point that the employer is going to find it difficult to explain why a benefit level should reduce, because presumably this recommendation would allow an actuarial reduction if the normal form of benefit is to be on a joint survivor basis. That is difficult to explain. He will be led to provide the original level of benefit and will, in addition, presumably continue to provide the group insurance, so the total cost--maybe the total protection post-retirement--may be more than is really required.

I would raise another question. I am not too sure where this stands, but this is an area where it is most important that there be compatibility between the two government plans--Quebec and Canada. I am not too sure whether they are not at different levels at this stage. For a national employer, that kind of distinction is unfortunate.

Mr. Arthur: I would just like to add to Mr. Bovey's comments that to provide a 55 per cent to 60 per cent survivor benefit, which frankly our company does and I highly recommend it, would increase the cost by about one per cent of payroll or, if you did not want to have an increase in cost, it would, as Mr. Bovey indicated, require a reduction of about 15 per cent in benefit. Those are the options. Personally, I think the employees would go for an increase in cost. I would like to call Mr. Horrocks now to comment on number 13.

Mr. Horrocks: This is the specific recommendation dealing with actuarial matters. I hope it is coincidental that it is labelled 13. I was somewhat surprised to see that the committee had in effect recommended no change in this matter because I was quite impressed by a couple of comments in the report of the Royal Commission on the Status of Pensions in Ontario. It is easier for me to say this being one of them, but they commented they were concerned at the inability of the nonactuary to understand the actuarial report. The royal commission commented further that it was unlikely any improvement would come from within the actuarial profession.

In the light of those two comments, I would have expected your committee to have suggested a more positive approach to the understanding of the valuation of actuarial liabilities. I would not want you to go so far, I do not believe, as to publish mortality tables and interest rates and salary scale assumptions within the Pension Benefits Act of Ontario, but I would suggest you might consider asking the Pension Commission of Ontario to issue guidelines respecting the valuation of liabilities in a manner very similar to that which they did on the valuation of assets some years back.

It has been my experience that those guidelines had a very salutary affect on the then difficult question of the valuation of assets. We have at the moment a very difficult question in the valuation of liabilities, the difficulty arising from the points brought out by the royal commission of the inability of those people outside our circle to get across on 24 sheets of paper what we are really trying to say about liabilities.

Mr. Arthur: I now ask Mr. Kennedy to comment on 14. Brian Cope and Ian Bovey will also make some comments.

Mr. Kennedy: The question of disclosure, in principle, is generally agreed to. At least I support it and many of the plan sponsors and employers in Canada support that objective and in many cases have been following disclosure in general terms and in their own terms for a number of years in one way or another. I am also in strong agreement with the goal stated in the recommendation that there be uniformity in disclosure between provinces, because for national employers the problem of different treatment in different parts of the country is a real headache and administrative concern.

The point just made by Geoff Horrocks with respect to the understanding of actuarial reports carries over into the disclosure requirements area in terms of employees properly understanding what is required to be communicated through these reports. I think some of the requirements that have been stated so far in provinces that have passed legislation may lead in some respects to more confusion than clarification for that reason.

A supreme example may exist in the United States with some of the ERISA regulations, which are so complex and detailed that I defy anyone to really understand what is being communicated in some of those reports that are required to go forward to employees. I suggest that it be structured in such a way that it is understandable and simplistic for the employee.

The point I believe Ian made earlier can also apply here, and that is with respect to different requirements for different kinds of plans. I feel there is certainly a different employee need with respect to a final earnings kind of plan, a plan based on a benefit formula, as opposed to a money purchase type of plan, and whether or not the employee is contributing to the plan. The noncontributory plan might require less frequent reporting, for example, because the employee doesn't associate it directly with contributions he has made.

Of course, with respect to the investment vehicles used in the case of the noncontributory plan, the particular investment vehicles are not of as great concern to the employees since the company has the obligation to make up any deficit as opposed to a situation where it is a strictly a money purchase kind of arrangement. I think it should be tailored to the particular needs of the plan and not be confused with great additional requirements that may not be applicable to the particular situation.

With respect to liabilities, I think there is a general confusion in the public in terms of funding of liabilities and a general feeling that every plan needs to be fully funded in order to be sound, whereas the accrued liability which is acceptable under the requirements of the pension commission for a reduced treatment or special treatment of funding, because in effect it covers wind-up obligations, should be communicated and accepted as being a level of plan funding that is healthy.

There is the inference that every company should be funded to 100 per cent of all projected future benefits, whereas in many cases it is healthier for that company to invest the difference between those two liabilities in the productive machinery that is necessary to keep people employed.

Mr. Arthur: Mr. Kennedy has covered the points that Mr. Cope and Mr. Bovey wanted to make, so now we will move on to Mr. Baldwin to comment on number 15.

Mr. Baldwin: I have been trying to catch your attention with regard to 14 too. There are a couple of small points. As you know, some provinces have already begun to move to conform with the principle that is articulated in recommendation 14. That includes the province of Ontario among others. We certainly endorse the principle articulated here.

A small area of disagreement among those provinces that have already moved seems to have arisen as to whether the allocation of pension fund assets are part of the reasonable information that should be made available to employees. I would certainly like to bring to your attention that from our point of view the allocation of pension fund assets is reasonable information, and you may want to comment on that specifically since it has arisen as an issue among those provinces that have moved in the information disclosure area.

11 a.m.

One other thing about information disclosure--it is a point that applies generally to the definition of employee rights--is that we would like to see it explicitly recognized that where a collective bargaining relationship exists the union be recognized as a interested party to the pension plan, so there would be no doubt, for example, about a staff representative for a union that is servicing a local having right to the information that is also available to employees.

Generally speaking, our pension benefits legislation does not specifically recognize unions as interested parties under pension plans, even where a collective bargaining relationship exists.

Mr. Arthur: Mr. Chairman, if you don't mind, one of our members would like to question this matter.

Mr. Bovey: I would like you to explain what you meant by "allocation" more precisely.

Mr. Baldwin: For example, the pension fund has invested the money in common shares, certain kinds of bonds--

Mr. Bovey: Percentages?

Mr. Baldwin: Yes. We would like to know how the fund assets have been allocated to different types of investments.

Mr. Chairman: Mr. McClellan has a question as well, if you would like to entertain it now.

Mr. McClellan: While Mr. Baldwin is commenting, could he deal with recommendation eight at the same time, as to whether he has any thoughts about the 50 per cent transfer?

Mr. Baldwin: I don't have any specific comment to make on that, Mr. McClellan. The problem that is being addressed in recommendation eight is one that we had been satisfied to deal with through the excess earnings approach. This is another possibility for me to consider. Off the top of my head, I don't want to reject it or adopt it in preference to the use of the excess earnings approach.

Mr. Arthur: The Saskatchewan government already has this. As I said, this committee agress, although Mr. Baldwin has some reservations.

Mr. McClellan: I want to get all the nuances.

Mr. Arthur: Very good. We do want to wind this up by 10 after, because I know you will want to ask us questions.

Mr. Baldwin: All right. Regarding recommendation 15, I must say I feel I face a bit of a paradox. It seems to me that if you want to recognize pension plans as deferred wages in which employees have a proprietorial interest, it is hard to limit the representation to one member on whatever the management board might be.

On the other side of the coin, there are many trade unions which for a variety of reasons have not been anxious to participate directly in the management of pension plans. Some of them may even find themselves having reservations about this recommendation, the spirit of which I wholeheartedly endorse. What we have always done in making recommendations in this area is tie any recommendation with regard to employee representation to a request from the employees or their collective bargaining agent where a collective bargaining agent exists, and where it has been asked for we have always suggested the recommendations compel joint participation where that is requested. As I say, my reaction is somewhat paradoxical.

You may want to have a trigger, such as an employee request, and then the question is open as to what degree of employee participation you are advocating. One out of a committee is not very adequate if you follow the proprietorial right argument.

Mr. Arthur: I would like the committee to know that in the multiple-employer union trustee business, the representation is equal, 50-50, from the unions and from management. So they do have a say in how the pension money is going to be spent and what kind of benefits are to be bought. That is an unusual situation but it does exist right across Canada.

Mr. Cope: Mr. Chairman, if I can make one observation, this recommendation, once again, does not differentiate between contributory and noncontributory plans. Again, the concept of what a pension is should play on what the recommendation ends up being. In my actual experience, working with plans where employees are represented on the board or board of trustees, I have always found it to be educative for the employees and in the long run it has ended up to be valuable, because the word does filter out among employees on how the plan is operated, the kinds of issues that have to be dealt with, and it perhaps helps remove some of the adversary concept between an employer sponsoring the plan and an employee benefiting from it.

Mr. Chairman: I have held back from asking any questions, and I do not wish to do so, but by way of clarification I would like to impress upon you, if I might, Mr. Cope, the committee's adoption of the concept of pension benefits as deferred wages. A lot flows from that, as you know, and it is sometimes difficult to apply the logic universally to every situation, but for many purposes the committee has deemed them to be deferred wages. So I could maybe put your conscience at rest in connection with your philosophical support.

Mr. Bovey: I would now ask Mr. Horrocks about his one comment in relation to Mr. Baldwin's point, and he talked about a trigger, employee-request representation on behalf of employees. I think we have to recognize that there are many employees who are not represented in that fashion and perhaps the law as it is written should take care of that.

Mr. Kennedy: I would like to say a few words with respect to that same concern. In our particular case, for example, we have 5,000 employees from coast to coast. About half of them are in unions; the other half are not in unions. Of those that are represented through unions, we have 15 different unions involved, all in the same pension plan. I think the committee should consider the mechanics of how the employees would appoint a single representative under those circumstances, who would pay the travel costs to the meetings, who would pay for the time spent at the meetings, would the cost come out of the fund; would it be paid by that employee?

It could not very well be paid by a particular representative, that is, a union, because he would not necessarily be in that union, or certainly might be representing a number of unions. Therefore, I think it poses some problems that should be thought through before such legislation might be contemplated.

Mr. Chairman: Mr. Kennedy, again if I could comment, the committee has given consideration to many of the problems implicit in that recommendation, and I suppose we have adopted the interim posture that if there is to be employee representation which they want, then maybe they are going to have to assist in the solution of how they are going to choose that particular representation.

Mr. Arthur: Thank you, Mr. Chairman. As you can see, our views are quite diverse.

Mr. Horrocks: I should like to make an initial comment on the question of augmentations of pensions after retirement. I hope you would want to spend some time on this particular matter by way of questions, since in my experience it is possibly the single most significant item of concern, both with plan sponsors and plan members.

The second one, which might surprise you, is the rate of interest allowed on employee contributions when they terminate employment. But the number one item of concern is the adequacy of pensions after retirement. I am sure you have heard before today that the ideal solution of guaranteeing by contract full augmentation in line with the cost of living index comes at a cost that is prohibitive to the majority of plan sponsors.

You may well also have heard that an alternative approach is that most responsible employers today will, on a periodic basis, grant so-called ad hoc increases, and that perhaps our solution in the business should be to let that method develop and take its course. My suggestion to you would be that this method would also be inadequate in that there are a sufficient number of nonresponsible employers who would not take that forward step.

I have concluded, as you have said, I think quite advisably, in principle the excess interest approach will be acceptable to a majority of employers. What may not be as acceptable is the extension of that concept to deferred pensions. There seems in the business considerable disparity of opinion as to what an employer is willing and feels morally obligated to do for a retired member compared to what he feels responsible and morally obligated to a terminated member who has a vested benefit. While the theory says it, and I am sure you have heard this, true portability will never be achieved until you augment deferred pensions as well.

11:10 a.m.

Perhaps in your deliberations you should be aware that the private plan sponsor may not be too inclined to accept the principle of augmentation for deferred pensions.

Mr. Arthur: Thanks, Mr. Horrocks. We come to number 18, which I will respond to with an emphatic, "We couldn't agree more."

The superintendents of insurance, as you are all aware, and the federal superintendent have guidelines for group life and health insurance benefits, and there is tremendous success with that. There is unanimity right across Canada. We have no quarrel. Whenever a life insurance company or an employer has a

disagreement, we refer it to the superintendent of insurance and it is settled. Surely CAPSA, Mr. Bentley, should be able to reach some kind of an agreement with the various superintendents, pension legislators and the federal government as well.

Unfortunately, pension plans are subject to regulation and control by authorities representing different levels of government, as you probably are all aware, a fact that adds considerably to the complexity of the system. For example, current provincial legislation is intended to promote adequate funding standards for pensions, whereas the federal tax regulation of pension plans is designed to preclude overfunding of moneys on pension plans. The challenge of both levels of government is how to develop a consensus solving this apparent conflict. We already have Saskatchewan, Quebec and the provinces moving in all directions.

If I may make one final comment, we hope Ontario leads the way. This committee is urged to get the report as soon as possible to the public and move ahead with or without the federal government.

Thank you. We have now concluded our remarks and we are open for questions.

Mr. Chairman: Thank you very much, Mr. Arthur. Mr. Gillies has a question.

Mr. Gillies: Thank you, Mr. Chairman. Mr. Cope raised some concerns about recommendation number four that I have not heard before. I wondered if I could ask him to elaborate on them as best he can in the brief time we have. I would also be very interested to hear Mr. Baldwin's comments with regard to recommendation number four.

Mr. Cope: Do you mean in respect to the concept of deferred wages versus five-year vesting, or the royal commission's recommendations?

Mr Gillies: I am talking specifically about five-year vesting. I think you raised some concerns about what might happen to some individuals if we were to move a couple of years down the road to two- or three-year vesting.

Mr. Cope: That relates to a subsequent recommendation where the committee has recommended five-year vesting. Also, in recommendation five, it suggests that the pension commission should review that after three years with a view to making the time period shorter. What I am saying to the committee is that if this is implemented and becomes law today and then the pension commission reviews it in three years and says at that point vesting should be after six months, because that is the principle which we are following, then between now and three years from now there are many participants caught in that time capsule. They will have lost the period of vesting which is now made available to new employees.

Mr. Chairman: Mr. Cope, if I could interject here, my observation would be that, consistent with the concept of preferred wages, the goal would be to have immediate vesting ultimately and

any implementation of that particular recommendation should go forward with a timetable or a schedule of phasing in of the particular recommendation so that it could be assimilated within the industry without too much dislocation.

Mr. Cope: I do think that sponsors of plans would appreciate a timetable. They could project their costs and employees would know what to expect in the coming period. Does that clarify that point for you?

Mr. Gillies: I think so. Your recommendation as to how we might address this problem would be to make it quite explicit what we intend to do in the future at the time that this legislation is introduced.

Mr. Cope: Yes, definitely.

Mr. Gillies: Just beyond that, I wonder if Mr. Baldwin has any thoughts on that.

Mr. Baldwin: Mr. Cope has raised a very valid concern about people who get caught in this time frame between the initial change and the subsequent change five years down the road. Also, from the point of view of providing a stable regulatory environment for people to work in, there is certainly an advantage to trying to determine your preferred position right off the bat and make it law, hopefully once and for all. Certainly from our point of view, we would prefer a two years of service vesting period. From the point of view of providing a stable regulatory environment, it might be better to do it right away, rather than subject people to the uncertainty of the regulatory environment for the three-year period that is contemplated.

Mr. Arthur: I would like to comment. The Ontario royal commission covers this point of vesting in the various time frames very adequately. The Canadian Institute of Actuaries, appearing before the national pension conference in Ottawa last year, recommended immediate vesting if we accept the principle of deferred compensation. It would cost about 1.5 to three per cent of payroll if we include also deferred pensions. I would like to bring this point to the committee's attention. I am sure you are all very familiar with the Ontario royal commission's report though.

Mr. Kennedy: I would just like to make one point in line with the two-year proposal that you suggested, Mr. Baldwin. The question of administration that Mr. Bovey raised is one to consider, particularly in the first year of employment. Turnover rates in that first year range from 25 per cent of the work force to 50 per cent or higher in some industries. The very small amount of benefit or contribution that is provided in connection with an employee in that short period of time represents a real problem in terms of the handling of those funds and the bookkeeping aspects of it.

I believe that the principle of immediate vesting can be provided with an appropriate eligibility period before contributions are made or before a person is brought into a

noncontributory plan, which would correspond, say, to the two-year period you are talking about, which would avoid the administrative complications that are prevalent in that first one or two years of employment.

Mr. Chairman: Any further questions?

Thank you very much, gentlemen. We certainly appreciate your taking the time to give us the benefit of your views.

Mr. McClellan: I may have missed something because I was a few minutes late. Did the delegation have any comments to make on the provincial universal retirement system program?

Mr. Arthur: No.

Mr. Bentley: Don't be chicken, John.

Mr. Arthur: From my own personal point of view, I am opposed to PURS. I think it is an administrative nightmare. I think that another compulsory plan on top of OAS, GIS and the CPP is not what the industry is looking for.

Mr. Chairman: I am sure Mr. McClellan was aware of your answer before he asked the question.

Mr. McClellan: Does anybody support the PURS program? Perhaps that would shorten the discussion.

Mr. Arthur: I would like to make one comment. I have attended, not as a delegate but as a listener, previous sessions here. One of the things that we are overlooking--and I made this point at the national pension conference--is we ought to be looking at net disposable income replacement ratios. There are people today with OAS and CPP at a certain level of income--and I am looking at the $10,000- to $15,000-level income--who have adequate replacement income. As a matter of fact, a couple have almost 100 per cent of their net replacement income ratio because of the way we are taxed. We have a lot of benefits in retirement. People in this room, of course, are not aware of that at the moment.

Mr. Bentley: Do you want to bet?

Mr. Arthur: Excuse me, Mr. Bentley. You don't look it. The point is, what we have to be concerned about is net replacement ratio. If we impose another system like PURS of two per cent and two per cent, or whatever percentage you want to come up with, we are putting on an employee a higher pension than is really adequate or necessary for him. I think it should be voluntary.

11:20 a.m.

In my speeches as president of the Canadian Pension Conference I have been personally promoting an 80 per cent net income ratio. Of course, we would have to have legislation, but we can do that by saying to an employer on a voluntary basis he must provide a net replacement ratio of 80 per cent. The Canadian Life and Health Insurance Association, which you have heard from, is also promoting this in a similar vein, but not quite the same as I have been promoting it.

I am concerned that we legislate something people don't want. I was in Winnipeg about three months ago making a speech there before a union group and it was amazing that 50 per cent of them didn't want any more pension because they said they had enough. Does that answer your question?

Mr. McClellan: It is the right answer for the wrong reasons.

Mr. Chairman: When you carried on, you went just a little too far to satisfy Mr. McClellan's rationale for an enriched CPP. Thank you very much again, gentlemen. I think the morning was well worth while in terms of our dialogue with you. We appreciate your observations.

Mr. Arthur: Thank you, Mr. Chairman. We appreciated the opportunity to be here.

ONTARIO MUNICIPAL RETIREES' ORGANIZATION

Mr. Chairman: To conclude the morning and to make it even more productive, we have with us the Ontario Municipal Retirees' Organization. Those persons appearing on behalf of that association are Mr. David Bruce, president; Miss Luci Nicholson, president, Ontario division, CUPE; Terry O'Connor, secretary-treasurer, Ontario division, CUPE; Don MacLeod, chairman, Ontario division, pension committee, CUPE; Mr. Tony Wohlfarth, research officer, national office, CUPE; and Mr. Clarence Ouellette, secretary, OMRO. Will you please come forward? We have distributed your brief and we are in your hands as to how you wish to tackle the matter.

Mr. Bruce: Mr. Chairman, on behalf of the Ontario Municipal Retirees' Organization, OMRO, I would first like to thank you and your committee for inviting us to appear today.

I will begin with some background on our organization. OMRO was established in 1975 to represent pensioners who received all or part of their retirement income from OMERS. OMRO is a voluntary association which operates solely on the basis of a nominal membership fee plus new horizon grants. We are affiliated with the Ontario division of CUPE and receive organizational and technical assistance through this association. Today, we have over 4,000 members, and I am pleased to tell you we will be holding our seventh annual general meeting tomorrow here in Toronto.

Miss Nicholson: Mr. Chairman and committee members, it is nice to see you again. In our brief today--and you have had adequate time, I am sure, to have read it--we would like to address three issues which are all of critical importance to the Ontario municipal employees retirement system members. We don't intend to read the brief in its entirety, but rather summarize the major points in these opening remarks. After this, we would be pleased to answer any questions you may have.

The first and the most urgent matter is the need for regular annual adjustments to pensions and pay under OMERS. On page 11 of our brief, you will see the OMERS record in this regard. Adjustments to date have been infrequent and inadegate,

particularly in the recent years of spiralling inflation. As a result, our retired members have lost 45 per cent in purchasing power in just 10 years. Our recommendation is that OMERS be required to provide regular annual adjustments to pensions using the excess interest approach. We feel that is the only way to ensure equity between pensioners and current contributors.

In this regard, we note with appreciation your committee's support for this approach in recommendation 17 of its interim report. However, we are concerned that the base rate of interest under this proposal may be set too high. Indeed, some commentators have suggested it be set as high as six or seven per cent. We feel that rates of that magnitude will seriously undermine the benefits of the excess interest approach and we would urge you to mandate a lower base rate.

Many of our OMRO members receive part of their pension income from two sources, OMERS and the old pension plans which were closed out when OMERS was enacted. The vast majority of these plans have made no adjustments in the pensions payable despite the fact that their investment yields may have doubled or tripled with inflation.

Indicative of their attitude is the following quote from a letter by Mr. A. Symons, who is the group pension vice-president of Canada Life. You will find the full text of this letter in our appendix A. I quote from his letter: "On the one pension that is in the course of payment, we of course intend to meet fully our contractual obligation, but we do not expect to go further."

This kind of cavalier attitude to the retirement needs of the elderly should not be allowed to continue. Accordingly, we have recommended that all deferred pensions be automatically escalated by an appropriate standard and that the standard be not less than the rate of interest on savings accounts.

Here again we note your support in principle with recommendation 16 of the interim report and we look forward to a quick legislative change.

Inadequate inflation protection is not the only problem that plagues our OMERS pensioners. Of equal concern to us is the need for an OMRO representative on the OMERS board. This would ensure that the views of the beneficiaries would be heard on such subjects as indexing and benefit improvements. It would also improve communication between OMRO and OMERS, which in the past has been quite acrimonious.

Pensioner representation is not a new or a radical idea. As we pointed out in our brief on page 20, it has been recommended by the federal Department of Labour. We should also point out that at least two crown corporations, Air Canada and Canadian National, have pensioner representatives on their boards. We have, therefore, recommended that the regulations be amended to require that at least one board member be appointed from a list submitted by OMRO.

<u>11:30 a.m.</u>

Finally, we turn to the question of health care for senior citizens, and here we are very concerned that OHIP and the provincial drug benefit plan do not adequately meet the health needs of our retirees. In particular, such services as eyeglasses, semi-private hospital, hearing aids and wheelchairs are not covered under OHIP. We, therefore, recommend that a comprehensive and a portable package of health benefits be implemented specifically for Ontario's pensioners. We would also point out that the Ontario Advisory Council on Senior Citizens has made a similar recommendation with respect to the dental needs of Ontario's elderly.

Gentlemen, that is the summary of the brief we have presented to you, and if you have questions, we have two of OMRO board members here with us, and we are in your hands.

Mr. Chairman: Thank you very much. Mr. McClellan wants to ask a question.

Mr. McClellan: I wonder if you could turn to page eight of your brief, table number four, and perhaps explain the significance of that particular table. I assume from this the average pension benefit to a retired member in 1980 was $1,841. Am I reading it correctly?

Mr. Wohlfarth: Yes. That is the average of all pensions now in payment under OMERS, and the purpose of table four was to undermine the arguments in the royal commission report that the public sector plans are the most generous plans around. Clearly, with benefits of $1,800 a year, they are not the most generous plans around.

Mr. McClellan: Do you have any other data on pension benefits which would indicate the range and the distribution of the range?

Mr. Wohlfarth: Since the Ontario division met with this committee, we have been supplied by OMERS with a printout of the benefits payable by year in which the benefit commenced. Obviously, there would be an increase year to year as more entitlement is accrued under OMERS.

Just referring to those figures, the most recent figures available for 1980 show an annual basic pension payable under OMERS of $2,726. That is an average of all people who retired in 1980. It is still not significant but higher than the $1,841, which is an average of all pensions payable.

Mr. McClellan: I am sorry. That $2,726 is what?

Mr. Wohlfarth: It is the average of all pensions which commenced payment in the year 1980.

Mr. McClellan: Oh. Good God. Really?

Mr. Wohlfarth: The range is also quite significant, indicating the range of--

Mr. McClellan: That is the average of your current--

Mr. Wohlfarth: People who went on pension in 1980. The range is obviously very significant, reflecting the hierarchy of salaries within particularly the municipal sector. The minimum, I point out, is $32 a year and the maximum $25,368.

Mr. McClellan: What is the top of the range? Do you know?

Mr. Wohlfarth: The top of the range is $25,368. That is the maximum pension now being paid by OMERS.

Mr. Mackenzie: You have a range as low as $32 and as high as $25,368, and the average of people who retired last year within that range is only $2,726?

Mr. Wohlfarth: That is right.

Mr. Haggerty: What would be the range in terms of years of contributing to the scheme? Is there not some place in OMERS where there is an employee who, say, perhaps had only been 18 years under OMERS, but would include war service to give an extra four or five years? Is there not an area where you could buy back into a local municipal retirement scheme that you had before OMERS that would add on to the present OMERS scheme? That is why there is a differential in the payments out.

Mr. Wohlfarth: You can buy back service prior to the year the municipality or local board joined OMERS. However, as we point out in the brief, the number of situations where that has been bargained, where that has been achieved through negotiations, is very small. It is in the order of four per cent of all OMERS members.

Mr. Haggerty: What about the war service years that can apply to persons who were employees of the municipalities? Can they can get another four or five years service included in OMERS?

Mr. Wohlfarth: The war service credits would be treated differently under different pension plans. They are not counted as credited service under OMERS.

Mr. Haggerty: I thought in some instances it was, though, that there would be credit given. It depends upon each municipality in terms of the bargaining table.

Mr. Wohlfarth: As I indicated a moment ago, the back service can be purchased through a rebargained situation or, in a lot of circumstances, it has been granted unilaterally to management employees of municipalities and local boards.

On the question of war service credits, I am not aware that they are covered as service under OMERS. Perhaps you could bring that up with the OMERS people on Thursday.

Mr. Riddell: Do you know whether the same situation would apply to other members of the public service? I am thinking now of teachers and civil servants, anyone connected with public service. Would you find the same thing--these extreme lows, and what I would call a very small average, and then the highs? Or can you speak just for OMERS?

Mr. Wohlfarth: We have not made comparisons of that nature. I am sure the OMERS board would point out to you that the minimums and the maximums reflect different years of service accrued under the plan and also differences in salary levels.

Mr. McClellan: I am not clear whether you have the data to calculate the number of your members who are receiving pensions below the 1980 average?

Mr. Wohlfarth: No, we do not have that data for OMRO membership.

Mr. McClellan: You cannot get that? That would be real interesting to know. It is a large group because your average is so low and the top of the range is so high relative to the average. You obviously have a lot of people below the average. I guess you cannot get that data if OMERS will not give it to you.

Mr. Wohlfarth: No.

Mr. McClellan: Do you have any data, or can you estimate, how many of your members would be receiving, in addition to their OMERS pension and their Canada pension plan, guaranteed income supplement? Do you know how many of your members would be relying on GIS?

Miss Nicholson: We have no idea how many rely on it. That is not available to us.

Mr. McClellan: Again, it would be useful to know that. Again, you can assume with a fair degree of safety that a substantial number of OMRO pensioners are also receiving at least partial guaranteed income supplement, which means they are being taxed on their OMRO pension at the rate of 50 per cent.

Mr. Wohlfarth: Certainly the average pension payable would qualify one for GIS and guaranteed annual income system benefits.

Mr. McClellan: And Gains? So they would be taxed at 100 per cent. If you are getting GIS you are taxed at 50 per cent, and if you are getting GAINS, you are taxed at another 50 per cent. The effective tax rate, if you are getting both, is 100 per cent. What is being taxed is the pension that you have contributed to throughout your working life.

I guess the information speaks for itself. It is shocking. I am genuinely surprised that these pensions are as low, on average, as they are.

Mr. Williams: I want to come back to Miss Nicholson's comment and concerns on the first recommendation dealing with indexing, and refer the committee to a specific example, your table five on page 11. I wonder if you could indicate how the adjustments to pension and pay were achieved. Is this done on an ad hoc basis, or is there some arrangement, some formula, that was applicable or what?

11:40 a.m.

Miss. Nicholson: It is done on an ad hoc basis by the OMERS board, if they have money, and in an ad hoc way. We have continuously approached them for our retirees, and on ad ad hoc basis, if they have some money, they have granted us periodically the changes which appear on that table. Indications are that they are not willing to do that again.

Mr. Williams: There seems to be no rhyme or reason to the fluctuating percentage points. Even with the variances in the consumer price index, they did not seem to be consistent in what they were doing.

Miss Nicholson: There is no consistency there, is there?

Mr. Williams: No. I was just wondering whether there was some magic formula they were using that did not seem to be too realistic in some particular years, or whether it was ad hoc, which you now answered it was.

Miss Nicholson: It was ad hoc.

Mr. Wohlfarth: The amounts in later years, particularly, have fallen off to the point where the loss in purchasing power has been substantial in the last three or four years from 1977 to 1981.

Mr. Williams: With regard to the excess interest approach, the concept in principle seems to attract a lot of attention and considerable support, I guess. What continues to remain elusive is, again, what formula one would apply, or what standards would be developed, to establish clearly in the public's mind and the minds of those implementing plans what the excess interest factor would be. You hear a variety of concepts being put forward in an attempt to define what the excess interest formula is or should be. I am wondering if you could assist the committee with your thoughts on that aspect of the concept.

Mr. Wohlfarth: This is the concern we have brought to you today with respect to the recommendation made in your interim report, that is, the exact formula under which excess interest earnings would be calculated. Your report gives acceptance in principle to the concept of excess interest, but makes no mention of what would be the guidelines, the base rate of guidelines, in particular.

The calculations on page 15 of the report were based upon a base guideline of three per cent being used, which we feel approximates the long-run rate of interest after the effects of inflation have been removed, the real rate of interest. However, we are concerned that the numbers that are being bandied around now are more of the order of six and seven per cent, and we feel that would substantially undermine the benefits of the excess interest approach to OMERS retirees.

Mr. Williams: I think that one group before us last week was even using inflationary figures that narrowed the gap even more between what would be determined as excess interest. They were using 10 or 12 per cent in relation to the prevailing 14 or 15 per cent.

Mr. Wohlfarth: You are referring now to the upper limit on the formula?

Mr. Williams: No, the bottom limit.

Mr. Wohlfarth: Using 12 or 14 per cent?

Mr. Williams: That's right. That, again, is related to an inflationary base, which is a transient thing at best. I just did not see their rationale in the use of that figure, or relating to that as a base. I do not think it had any substantive base, if I can use that term. But that is the range, anywhere from three up to nine or 10 per cent, that has been referred to, and that is what we have to get a handle on very quickly if we are going to apply the principle that we seem to agree on in a practical way.

Mr. Wohlfarth: It is a particular problem because over time the actuarial interest rate that plans have been assuming has been creeping up. In the case of OMERS, it started out a number of years ago at five per cent and is now up, with the recent agreement they got from the Pension Commission of Ontario, to eight per cent. I believe it is one of the first plans to go to eight per cent of any in Ontario.

As that interest rate increased, it undermined arguments for using any excess interest earnings between three per cent and the base figure they are now using. Any time they raise the actuarial assumption interest rate, all those earnings between, say, three per cent and eight per cent, are now available to be used for basic benefits under the pension plan, as opposed to indexed adjustments.

Mr. Williams: The three to four per cent figure is one you subscribe to.

Mr. Wohlfarth: We would recommend it.

Mr. Williams: It is one that is more consistent with what the actuaries have been telling us is the appropriate range to work in.

Mr. Wohlfarth: It is more consistent with what the interest rate net of inflation would be after the effects of inflation have been removed.

Mr. Chairman: Are there any other questions?

Mr. McClellan: Obviously your members need a lot more than inflation protection.

Mr. Williams: I just have one more question, if I might, Mr. Chairman. Going to the second point of having a representative from the retirees, you cited a couple of examples where this is now in place. I think you mention the CNR.

Mr. Wohlfarth: CNR and Air Canada as well.

Mr. Williams: They are two federal organizations. Are there any other groups that you are aware of that exist in the crown corporations in the provincial area?

Mr. Wohlfarth: It is very difficult to do a comprehensive survey of retiree representation. There simply is no information on it. I would venture an educated guess that there are a number more.

Mr. Williams: Are you aware of any in the private sector?

11:50 a.m.

Mr. Wohlfarth: I have been told that with the United Auto Workers plans, there are a number of situations where they have representatives of retired members on the plan.

Mr. Williams: With UAW?

Mr. Wohlfarth: The UAW plans, yes. I am not able to confirm that or give you a specific plan.

Ms. Nicholson: They also are able to bargain for their retirees.

Mr. Wohlfarth: I would just like to point out that the OMERS plan now has provision for eight out of 11 employee representatives. We feel in that situation there is room for one retiree representative. That could easily be handled either by an amendment to the Ontario Municipal Employees Retirement System Act or by a change in the regulations.

Mr. Williams: Do you feel that the need is as great? There well may be merit in what you are asking for, but do you feel, objectively speaking, that the need is as great for a retiree to be on as an active employee to administer these plans? Do you see any differential there?

Mr. O'Connor: I rather think that one of the things that retirees have felt most strongly about, and I think their point is legitimate, is that someone who is a present employee and is not retired is interested necessarily with the pension he will receive when he retires and improvements to pensions which will take place when he retires. But for somebody who is already retired, his interested is necessarily with improvements to pensions that are already being paid. So there is a very different interest between the two people.

There are representatives of people who are at present working on the OMERS board but not of the retirees. We think that the Ontario Municipal Retirees' Organization is the only organized group that does represent members of OMERS retirees, so they are the ones that logically should have representation on the board.

Mr. Williams: You are suggesting, I gather, that it is the retirees who should be considered on a priority basis rather than the present employees, pre-retirement.

Mr. O'Connor: No, no. We think that the present employees also are are entitled to representation.

Mr. Williams: You think there is equal validity in the reque st.

Mr. MacLeod: To expand on that, maybe a little background on how OMRO was established would be helpful because it consists of people who receive an OMERS pension and have an alliance with the Ontario division of the Canadian Union of Public Employees. The brains of the people in OMRO are management-type people who are receiving pensions. They wanted to get a voice in OMERS so that they could get a member on the board and look for indexing and some of these things.

They felt that by getting together and forming OMRO, they could then have a vehicle to get to the government and get their representation. One of the things they have stressed ever since they came into CUPE in alliance with the Ontario division was that they wanted a member on the board. They felt they should have a say in what is going on because they have contributed to it in the past. They feel they would like to have that say now that they are there.

Mr. Williams: As you know, the present recommendation is that there should be at least one employee permitted on the team. Do you feel that if a company decided to allow two or three for whatever reason--given the size of the company and the number of employees and so forth--that if your request was pursued, there should be an equal number of retirees included in that representation, that if there were three current employees of a company allowed on to represent the employees, there should be three retirees as well? Do you feel that is necessary?

Miss Nicholson: No, we don't feel that that is necessary. But we feel there should be some representation from retirees, at least one.

Mr. Williams: So, numerically, they wouldn't necessarily have to match all the way through.

Miss Nicholson: No.

Mr. MacLeod: I would just like to expand on that. On behalf of the Ontario division of OMRO we have made representation to the OMERS board. Each time it is one of the things that we stress very strongly. Of course, they tell us they do not have that authority, and we acknowledge that the authority comes from here, from the government. We will also be going to you people and to the government to get that authority. We are not trying to get somebody on the board through the back door. This is just one of the objectives.

Mr. Gillies: On referring to your table five on page 11, it would appear that in 10 years out of the last 11 there has been an adjustment or a lack of an adjustment announced on January 1. Am I interpreting that correctly? Was there any augmentation on January 1, 1982?

Miss Nicholson: No.

Mr. Gillies: There was not. I would have to agree that you have some cause to be a little upset. In the OMERS annual

report of 1979, just for the record, Mr. Chairman, it would appear that OMERS used the pending royal commission report as its rationale for not introducing any augmentation for a given period of time. Now that this select committee has recommended that the excess interest principle be looked at very closely and possibly legislation to that effect could come out, I am wondering if you have had any indication from OMERS that, just as they previously said they would await the royal commission report's recommendation, they may adopt the same approach now that they have seen ours?

Miss Nicholson: I have had no indication in my office.

Mr. Gillies: I would just suggest for the record, Mr. Chairman, that, while the Ontario municipal employees retirement system board, within reason, has the right to adjust the plan as it sees fit, I as a member of this committee would object to the fact that they have held up adjustments they were previously making to the plan in expectation, as they said in their annual report two years ago, of the royal commission report. That report is now out, our interim report is now out and it really doesn't seem to have led to any changes in the plan that are of benefit to the employees.

Mr. O'Connor: To refer back to their last increase, the increase of March 1, 1979, the notice to the pensioners was even stronger than this indicates. This indicates some softness in the position, that possibly when the royal commission report appears there might be something. But in the statement to the retirees it didn't say that. It said that this would be the last increase they would be getting. Some of them have treasured that little notice that they got saying there would be no more. They were pretty happy to get even that little four per cent after having been told there would be nothing more. They weren't even held out the hope that the royal commission might modify it.

Mr. Gillies: So their position on that matter has not been particularly consistent.

Mr. O'Connor: No.

Miss Nicholson: The four per cent was not an across-the-board adjustment to all of the pensioners, either. Clarence, maybe you could explain that.

Mr. Ouellette: We received a letter from the board in December 1980 that, effective January 1, 1981, we would receive an additional four per cent in our pensions. That was not across the board, as was mentioned; it was only in effect to those who were receiving a pension at January 1, 1979. In other words, those who started receiving a pension in February 1979, all of 1980 or 1981 did not get the four per cent pension.

Miss Nicholson: So everybody on pension before January 1, 1979, got that four per cent.

Mr. Ouellette: Right.

Miss Nicholson: But from January 1, 1979, they didn't.

Mr. Ouellette: No.

Miss Nicholson: Obviously, they've gone a little higher (inaudible).

Mr. Gillies: That really completes my questioning, Mr. Chairman, except that as a member of the committee I know there have been threats that in 1979 OMERS was interested in the pending report of the royal commission. That report is now out, our interim report is now out, and I would like to think that in the coming year OMERS might be just as interested in the recommendations we made and perhaps take some action on some of them.

Mr. Mackenzie: I'd like to direct a question, if I can, to the chairman of the committee. What would your thoughts be on an immediate interim recommendation from this committee that adjustments be made to the OMERS, as well as representation on the board, which in itself is probably not a cost factor? It seems to me that you have got a very obvious situation here, one that is probably nearly as bad as what we are facing in the other area we were trying to deal with, and that's a certain category of older, unemployed women who are not yet pensioners.

Mr. Chairman: If I might respond, I think it may be appropriate to bring this matter to the attention of those in a position to act. However, as a recommendation, I think our mandate is to respond to the recommendations of the royal commission, and I think we should confine our recommendations to that. However, because of the fact that this has been brought to our attention, it might be appropriate, if the committee wishes, to have a letter go forward from the committee in connection with it.

Mr. Mackenzie: I would say that is the least action, Mr. Chairman. I'm not sure our mandate isn't wide enough to allow that. We were certainly able to make a number of recommendations in the interim report, and it seems to me that a situation such as this, which cries out for some action, probably is within the ambit of our mandate.

Mr. McClellan: The royal commission has certainly given an impression of comparable generosity with respect to public pension plans. If there is any theme that is consistent throughout the report, it's that theme. Clearly, the facts don't support that. I think we have to deal with that somehow when we get to writing the report. If you're not willing to do it now, then do it in a week or two. I think we'll be fairly insistent that we deal with this particular illustration, because there's a sense I have of being misled.

12 noon

Mr. Chairman: We have to bear in mind that our report is to the Legislative Assembly. I had in mind a sense of urgency in connection with this, and I thought maybe a message carried forward in some other way might be appropriate.

Mr. McClellan: They're not exclusive, Mr. Chairman.

Mr. Chairman: Yes.

Mr. Gillies: I think the point is well taken, Mr. Chairman. The OMERS board is before us on Thursday morning, I believe. Is that correct?

Mr. Chairman: Yes, they are.

Mr. Gillies: Well, we'll have an opportunity then to question them about this matter. I would welcome your suggestion, Mr. Chairman, that perhaps after hearing what they have to say we might at the very least ask you as chairman to write a letter to them on this matter.

Mr. Chairman: Any further questions?

Mr. O'Connor: I just wanted to make a comment before you get away from the suggestion that was being made. I recognize that you have a specific mandate as a committee. The way this group has come before you is that a brief was sent to the Treasurer (Mr. F. S. Miller) with copies to all members of Parliament, because we had presented briefs to OMERS and they were told that some of the things that were being requested were properly decisions made by the government--that changes to the OMERS Act, things like representation on the board, whom to appoint to the board and this kind of thing were not their decision; they were the government's decision. So the brief went to the government and asked for a meeting, and we were referred to this committee to make representation.

I hope some recommendations will be emanating from this committee because we were referred here. Otherwise, we are sort of back in the same place again of having to ask Mr. Miller, "Can we meet with you?" I think you see the point.

Mr. Chairman: I have some concept of the strategy, if not of the procedure. I appreciate the position you may find yourself in of shovelling fog. We will try to clarify the matter for you.

Mr. Mackenzie: You can only be shafted so long, Mr. Chairman.

Mr. McClellan: Is that true? I thought it was an infinite process.

I have a question of Wells, if I may. When we first started our deliberations in the last session we were questioning what benefits in percentages are actually paid to people who contribute. Now we have some data on average benefits in the OMERS plan. Does the commission have in its information systems equivalent data with respect to average payment per retiree per year from a number of other employer-sponsored plans?

Mr. Bentley: No, we do not. We don't gather and have never gathered the information. Some information could be provided by the statistics arm of the Quebec pension board. I do not know how extensive it is, Mr. McClellan, but I think I could probably get something from them. Their experience would be only with the province of Quebec because they have a statistical arm of the Quebec pension board and have, over the last six or eight years, gathered some information in this area.

Mr. McClellan: It would be helpful to us. We tend to focus on the question of coverage and whether it's 49 per cent or 54 per cent. The coverage issue is skewed by the fact that almost 100 per cent of public sector employees are covered, but it's also skewed by the fact that we don't know with very much precision what the average benefits paid to current retirees are. If this is indicative of the level of benefits being paid to those who are ostensibly well off in more generous plans, an average of $1,800 a year, I would like to know what the average benefits are in the less generous plans. I think the range here starts at $32 a year.

Mr. Bentley: I can't tell you exactly what Quebec has, but we'll try to discover whatever they've got.

Mr. McClellan: Surely there's information in some little nook or cranny somewhere that provides information equivalent to what we have on page eight, which, I gather, comes from the OMERS annual report.

Mr. Riddell: But to stay within their own jurisdiction, and to go back to the question I asked earlier, can we get a similar table in connection with other public service employees?

Mr. Bentley: No, I don't have the information. Under law we're not required to ask for it or anything of that kind. You probably could go to the public service superannuation branch and obtain similar information from them.

Mr. McClellan: Perhaps our research assistant could look into it.

Mr. Bentley: He could probably go to the Workmen's Compensation Board and obtain information from them on the same basis. They would have the information; we do not.

Mr. McClellan: Again, I think as much as is possible to get that material for us, following along Jack's suggestions, as well as looking at private sector plans, we will (inaudible) them.

Mr. Bentley: The only one I really know anything about is Quebec, which has made some studies in this area, but I do not know how far they have gone or anything else.

Mr. McClellan: Again, I'm not ruling that out. That would be helpful too.

Mr. Bentley: It deals principally with private plans as opposed to the public service plans.

Mr. Chairman: Are there further questions? If not, thank you very much, Miss Nicholson and gentlemen. You have just made our morning. It has been well worth our while having you with us, and we appreciate the time you've put into this.

Miss Nicholson: Thank you, Mr. Chairman. On behalf of the retirees, the organization which they belong to, we thank you very much. As was said to you, they were not born, or we weren't the

midwife for them; they formed because they had a need and they came to us because they needed technical assistance. We had some problem because, like Clarence, a lot of them were management, not union members. We overcame that, and we all work together because we have a common object, and that is indexing and a decent system that the retirees can work under. I'm pleased, and I thank you for the debate around the table. It gives us a lot of encouragement, particularly to the people who are subsisting on those pensions they get.

We have asked you for three things. The one we haven't discussed is health care benefits. I know it might be kind of foggy whether it's your mandate or not, but we would ask you to look closely at and make some recommendations on a comprehensive benefits package for retirees, because the dental, the eyeglasses, the drugs and the hearing aids are every bit as necessary--in fact, probably more necessary--to retirees than they are to someone my age. So we would appreciate it if you would take that into consideration.

Mr. Chairman: Thank you very much.

Miss Nicholson: Thank you. Notice that I think I'm young.

Mr. Chairman: Well, we could see that. It's obvious to everyone.

Mr. Gillies: Mr. Chairman, on a point of order: I was contacted over the weekend by a constituent of mine who represents the Automotive Parts Manufacturers' Association of Canada. They have worked quite hard in preparing a brief to the government on the question of pension reform, and they were not aware until I spoke to them on the weekend that we were having another round of hearings right now. I guess they missed the ad in the Globe and Mail or something of this sort.

In view of the fact that this organization represents companies that have about 16,000 people paying into pension plans, they wanted me to come to the committee and ask if it might be possible for us to squeeze them into the agenda to make a presentation.

Mr. Chairman: Mr. Gillies, I think that will certainly be possible. As you know, I made a sincere and persistent effort to meet with Madame Monique Bégin and/or her staff and those in Finance who might be of some assistance to us in discussing proposed changes to the Canada pension plan. I think it is an area that is going to be vital to our recommendations as we complete our final report. I must confess failure in being able to meet with the Ottawa people. It is no fault of our own. We have tried, and I am afraid we are going to have to make our recommendations in regard to the Canada pension plan without reference to any input from Ottawa.

I should put on record our sincere interest and effort in that direction, and I have written a letter to Madame Monique Bégin today, of which I have distributed a copy to each of you. I do not think it intemperate, but I do sense that it reflects the feeling of the committee. If it is all right with you, the courier will be delivering that today.

Mr. Riddell: I am inclined to think maybe you will provoke her into meeting us.

Mr. Gillies: Am I to take it, Mr. Chairman, that on one of the days that we were planning to be in Ottawa, I might then turn this brief over to the clerk and ask him to contact--

Mr. Chairman: Yes. We will reschedule a hearing.

Mr. Gillies: Thank you very much.

Mr. Haggerty: Very accommodating.

Mr. Chairman: If there is no further discussion, we will meet at 2 p.m. The committee stands adjourned until then.

The committee recessed at 12:13 p.m.

PR-13

SELECT COMMITTEE ON PENSIONS

ONTARIO ASSOCIATION OF SCHOOL BUSINESS OFFICIALS
ONTARIO ASSOCIATION OF EDUCATIONAL ADMINISTRATIVE OFFICIALS

TUESDAY, JANUARY 19, 1982

Afternoon sitting

SELECT COMMITTEE ON PENSIONS

CHAIRMAN: Taylor, J. A. (Prince Edward-Lennox PC)
Brandt, A. S. (Sarnia PC)
Cousens, D. (York Centre PC)
Cureatz, S. L.¿ Deputy Speaker (Durham East PC)
Gillies, P. A. (Brantford PC)
Haggerty, R. (Erie L)
Jones, T. (Mississauga North PC)
Mackenzie, R. W. (Hamilton East NDP)
McClellan, R. A. (Bellwoods NDP)
Riddell, J. K. (Huron-Middlesex L)
Van Horne, R. G. (London North L)

Clerk: Arnott, D.

Researcher: O'Mara, Dr. J., Legislative Research Service

Consultant: Bentley, W., Superintendent of Pensions, Pension Commission of Ontario

Witnesses:
From the Ontario Association of School Business Officials:
Boich, J.W., Executive Secretary
Brown, J., Chairman, OMERS Ad Hoc Committee
Morris, J., Past President
Spencer, R., President

From the Ontario Association of Education Administrative Officials:
Boich, J.W., Executive Director
Campbell, L.J.H., Controller of Finance and Plant, Board of Education for the City of North York
Gowing, J.D., Area Superintendent, Northumberland and Newcastle Board of Education

LEGISLATURE OF ONTARIO

SELECT COMMITTEE ON PENSIONS

Tuesday, January 19, 1982

The committee resumed at 2:08 p.m. in committee room No. 151.

ONTARIO ASSOCIATION OF SCHOOL BUSINESS OFFICIALS

Mr. Chairman: I would like to read into the record the following exhibits that have been placed in your binders, carrying on from last Thursday: Exhibit 153, statement to the committee by Mr. A. LaRochelle of the Canadian Institute of Religion and Gerontology; exhibit 154, notes for presentation to the committee from Index Now; exhibit 155, committee research officer, summary of presentations on Wednesday, January 13, 1982; exhibit 156, a letter dated January 8, 1982, to the chairman from Cheryl A. Valentine; exhibit 157, submission of Canadian Organization of Small Business. I will have the rest of the exhibits, including today's, ready for reading into the record tomorrow.

In the meantime, we have with us this afternoon as our first delegation the Ontario Association of School Business Officials. Those who have indicated they wish to participate in that presentation are Mr. Robert Spencer, president; Mr. Jack Brown, chairman of OMERS Ad Hoc Committee; and Mr. John Boich, executive secretary. There may be others as well. Gentlemen, if you would like to come forward here, we are in your hands as to how you wish to handle your presentation.

Mr. Spencer: Mr. Chairman, members of the select committee, on behalf of the Ontario Association of School Business Officials, I would like to thank the members of the committee for allowing us to present our brief today.

The Ontario Association of School Business Officials represents some 680 business officials and school boards throughout Ontario. The disciplines of finance, computer science, computer services, operations maintenance, construction, personnel, planning, purchasing and transportation are the verging areas of responsibility represented by the standing committees.

Periodically, an ad hoc committee is established to study and respond to reports dealing with subjects of extreme interest to the membership. In 1980, Mr. Jack Brown, former superintendent of business, now retired, of the Peel Board of Education was asked to chair the committee to respond to the report of the Royal Commission on the Study of Pensions in Ontario.

Under its able direction, a response was prepared and copies sent to the Ontario municipal employees retirement system, and the Honourable Frank Miller, Treasurer of Ontario. We have copies placed before this committee today. With that, I would like to ask Mr. Brown to continue and present the brief.

Mr. Brown: Mr. Chairman, you undoubtedly have heard and read enough on pensions to last you the rest of your life, so I am not going to bore you with reading out more statistical detail. I want to emphasize two or three points that we hope will be fundamental in your considerations of your next report to the Legislature. I have read with considerable interest the recommendations in your first report. I would like to comment on them at the end of my presentation and to have the opportunity to ask some questions of your group, and you may wish to ask some questions of us.

The point that we in our association did not support was the recommendation from the Haley commission on a provincial universal retirement system. We have not seen that PURS is an answer or a solution to the pension situation, not only in Ontario but at a broader level now across the country as a whole. The intent and the purpose of the constitutional amendments and the patriation of the constitution in this country indicate a feeling that we are one country, without having to treat people differently, province by province.

There are solutions that can be negotiated between the provinces that can solve some of the universal pension needs of people in different parts of the country. PURS, in our opinion, was not a solution that could benefit and reflect portability and mobility of the type of work force we will have in Canada.

The other factor we wish to emphasize with you is the need for some form of counter-inflation. You have recognized that; you are giving it attention in your studies. There has to be some method whereby indexing or some such increase reflects the cost that the pensioners are experiencing in the pension plans that do not have an indexing factor.

We represent the non-teaching group in education. Most of you are familiar with the teachers' superannuation plan, and the indexing factors that were related to it and to the government's pension plans. But we are a group under OMERS which does not have any indexing provision.

We are very proud of OMERS and the work it has done, because it is a fully funded plan and has served us well in the 17 years it has been in existence. Just as an illustration, I have retired after 32 years as the senior business official of boards of education in this province, and my pension under OMERS would be 50 per cent of what it would be if I had been in the teaching ranks. Yet I was the top business official of major boards of education in this province.

We are not complaining that we want reductions in the superannuation plan. That's not our plea. We just feel we should have some of the opportunities that are available in that plan and that we are prepared to pay for. We don't expect it would be handed out or subsidized. We feel if we had the opportunity we could enjoy a good pension without some of the limitations that now exist in the OMERS plan as compared to the superannuation.

Early retirement is another feature. Many of our fellows came into the business side of education after having established themselves in business and industry and, of course, they do not get portability of the pension contributions they made in that particular field, whereas in teaching they get their teaching credit right from when they start. We feel the retirement factors that the teachers enjoy, being able to retire on a full pension at a factor of 90 of age and service, is something that we would like to achieve for the school business officials.

Just as another illustration, although I had a total service and age factor in excess of 90, I suffered an almost 30 per cent reduction in pension because I chose to retire five years early. I made that choice, but that was the penalty I paid even though I had 92 points under the teacher plan.

The help that we could achieve in some regard would be if the provincial government could have some influence at the federal level in changing the income tax deduction associated with pensions. The $3,500 limit which exists today is not realistic in the present economy. We know that the essence of what you have to deal with is money. We know what the economy is suffering at the moment. We know you cannot introduce a social security system without having some view to the future of who is going to pay that particular cost, and we recognize how difficult it is for a group such as yours to come up with what is desirable and what is practical.

In your recommendations in your first report, we can support very much the ones that appear on page 25, and I will just mention them. "The acceptance in principle of the augmentation of benefits for retired members of employment pension plans and for members with deferred vested benefits." You are there supporting some type of inflation balance. "The Pension Commission of Ontario proceed with the development of legislation, using the excess interest approach, with a phasing in period to ease the cost impact." We support that. Our OMERS fund, we feel, can support that kind of method to overcome the inflation that exists today.

Recommendation 18: "Changes in the pension legislation should be made in consultation with other jurisdictions. Uniformity of pension legislation should be supported and encouraged and existing integrating agencies, such as Canadian Association of Pension Supervisory Authorities, should receive continued support."

I don't think we need to say anything really more specific than that. The thing we know you are conscious of is the discrepancy in our pension plans between ours and the government and teachers' plan. We also are concerned, as you are, with the need of some of the older people who have retired without having time to build up any pension. The OMERS plan is only 17 years old, so they couldn't build up very much in that period of time.

Boards had the opportunity if they wished to buy back service. That was very expensive in large boards and only 20 some per cent of the school boards have purchased back service for their employees.

<u>2:20 p.m.</u>

I hope we may, sir, have the opportunity of asking a few questions of the committee, but I now give the committee the opportunity to ask us questions.

Mr. Chairman: Thank you very much, Mr. Brown. Mr. Cureatz had already indicated an interest in putting questions to you.

Mr. Cureatz: Thank you, Mr. Chairman. You indicated stress on more flexibility, and I am wondering, in terms of the committee's first report, more specifically referring to portability, if some of the recommendations have answered some of your concerns.

Mr. Brown: Yes, you have, and you have emphasized and stressed portability in your first report. I think that is something we support, even more so now, in terms of the new constitutional status we hope Canada will have.

Mr. Cureatz: You indicated the deduction under the Income Tax Act. Have you made any kinds of representation to the federal government?

Mr. Brown: No. We have made representation to OMERS, but not directly to the federal government. We have just asked OMERS to see if it could do anything in that respect.

Mr. Cureatz: I was just trying to see, if you had made representations, the degree of success of your correspondence. This committee does not seem to have had too much success in that field with correspondence with the appropriate minister.

Mr. Chairman: Any further questions?

Mr. Williams: I have a supplementary, Mr. Chairman, to Mr. Cureatz' question on the matter of income tax, and more particularly, I guess, on the discrepancies that exist between your association as a non-teaching profession and the teaching profession. You mention in your written brief, of course, which you supplemented today with your verbal presentation, that the provincial government should take certain measures relative to income tax and deductibility and so forth. I guess the primary area of impact or concern is with the federal authorities, and these are suggestions you are making as to how the province could back up any initiatives that would be taken by the federal authorities.

Mr. Brown: That is correct.

Mr. Williams: With regard to the differences between your profession and the teaching profession, is that not largely a matter of contractual negotiation between yourselves and OMERS to try to gain better recognition and coverage under that?

Mr. Brown: It is. You are quite right. We are at the moment somewhat confident that OMERS is prepared to do this, but it can only do it with the approval of the provincial government.

Mr. Williams: So you already have indications of willingness to close the gap, so to speak?

Mr. Brown: Yes. It is our understanding OMERS is prepared to move. I don't think it is prepared to move, and I don't think we are asking to move, to the full status of the teachers' superannuation indexing, which is eight per cent. We don't say it is necessary to jump to that level now. We are discussing with OMERS a phased-in period, when it might start at four per cent, five, six, and so forth. We understand the costs associated with this kind of indexing, and OMERS has demonstrated its ability to fund from investments a very good pension plan, and it is in a position now to expand that.

Mr. Williams: I see. So you feel that, while you have those assurances in attitude, in any event, from OMERS, there are legislative roadblocks at the moment that prevent it from supporting you?

Mr. Brown: There is no provision to do that, and it might be helpful if this select committee was in a position to recommend that legislation to be implemented.

Mr. Williams: I don't know whether--it is certainly something the committee could take under advisement, and I appreciate your bringing it to our attention.

Mr. Brown: I understand, Mr. Chairman, that OMERS will be before you later this week, and I think that would give you an opportunity at that time to see how sincere its stand is in that respect.

Mr. Chairman: Yes. Some of the committee members have some questions in mind already as a result of this morning's representations. Could I ask you to comment on a statement you made--and I am quoting now: "It is apparent that the Canada pension plan will be reviewed this fall at a national conference sponsored by the federal government. Improvements to that universal plan could achieve most of the objectives of the PURS proposal." That is, of course, in your submission to the Treasurer, which was made some time ago.

Mr. Brown: Yes.

Mr. Chairman: I want to point out that should be in context in terms of time. Do you have any views on the type of changes you could see, or would wish to see, in the Canada pension plan that would cover off the weaknesses, or some of them, in the existing system, and how that would eliminate the need, or at least the arguments, for a PURS program?

Mr. Brown: Mr. Chairman, the obvious solution, in our minds, is that the CPP be mandatory, that there be no opting out, that everybody, including part-time people, have a pension opportunity. The way it is now, that is not so. We feel for the type of pension that could be implemented, the machinery is there at the federal level to introduce a higher pension plan. It has the machinery set up in payroll systems to keep track of, to identify, so that every one of us in this country who can get a salary can get money. It can identify and determine how much that is. We feel it could adapt the Canada pension plan to reflect that for all

wage-earners. In the type of thing we are involved in in OMERS, a part-time person is not in at all. OMERS cannot cope or deal with the kind of person who works three or four hours a day. It does not keep records on that type of person.

2:30 p.m.

In the CPP, if you are on a payroll, you are identified. We feel that CPP can provide the portability. PURS had the principle of portability in mind when that recommendation was made. But it is unfair for the reasons I have stated, and in your own reports, you have identified areas of concern. The CPP, I feel, could be expanded to include every type of person and increase to a level to give you the average income wage relationship you hope to achieve.

Mr. Chairman: So you would be suggesting some enrichment of the Canada pension plan as well as a broadening of its base?

Mr. Brown: Yes, but on a contributory pay-as-you-go basis, as you have considered in this committee. We feel people should have to pay for it. In some of the reports I have heard discussing it, I think even the minister, the Honourable Mr. Miller, has some reservations on taxing people or charging people for pensions in the young category. I cannot support that. I think everybody has to look on it, as this committee has done, as deferred wages. It is a method of securing something when you no longer have the capacity to work.

Sympathisers say young people need the money now, but they have already had a benefit of almost $25,000 in our educational system to get as far as they have. Why do they not then start to pay for some of the things they will need in the years to come? They have been supported by the province and the taxpayers all these years in the educational system. Let them now start to pay something in to provide for the future. When you are my age and say, "I need help now," when you opted out of it 40 years ago, to me that responsibility should not be left to an individual. I think pensions should be mandatory just as going to school is mandatory. A lot of people don't want to go to school, but they have to go because it is the law. I think it should be a law that they pay into a pension.

Mr. Chairman: To set aside some of their own earnings in order to be self-sustaining later.

Mr. Brown: That's right.

Mr. Cousens: Some people may not feel as strongly as you do in your report that OMERS is well-administered. Do you have any concerns at all about OMERS?

Mr. Brown: I hate to say it in this building but it is too conservative.

Mr. Chairman: I didn't know that was possible but I would like to hear you enlarge on that, in a nonpolitical sense, of course.

Mr. Cousens: We think it could be more so.

Mr. Brown: We feel it has been very cautious in its administration of the plan. The criteria it set up for funding, its rates on anticipated loss, its pay-out claims, its actuarial liabilities, in my opinion, have been too conservative. They have not reflected the ability of the fund to support a better benefit. I think in the last two or three years OMERS has had a remarkable change. A lot of that is due to its ability to make investments where it likes. At one time, as you well know, it was restricted as to where it could invest. When it has been given the freedom to invest, I think it has made giant strides.

Mr. Chairman: So really it is not as conservative as it once was. I suppose, following from that, it has reaped the rewards of being a little more adventuresome and bold in terms of its investments.

Mr. Brown: It is a good example of free enterprise.

Mr. Williams: On a point of clarification, Mr. Brown, if I might, you indicated at the outset the number of members you had in your association, which I gather is still 674, is it?

Mr. Brown: About 680.

Mr. Williams: That is 680 employees of school boards in Ontario. Does that mean all the non-teaching professional people you represent are included?

Mr. Brown: No, we are only a small portion. We represent the business and financial people in the board headquarters and offices. There are all the caretakers and maintenance men who are not members of our association.

Mr. Williams: I understand that. I mean within the parameters of your particular association as defined, whoever qualifies to be a member of your association, do you have 100 per cent representation? In other words, are all the people within your particular profession in your association?

Mr. Brown: Mr. Boich is the executive director. He can respond to that.

Mr. Boich: We are a voluntary association and, as in all voluntary associations, you never know whether you meet all the individual needs. It is amazing though how this association runs all the professional development programs for all the boards in Ontario, but not all the members come in. However, we have increased our membership every year. It takes some people a little longer to come in. We do not wish to have mandatory membership. We are very pleased with the voluntary aspect of it.

Mr. Chairman: Perhaps I could zero in on what I see as the substance of Mr. Williams' question and that is, what is the total potential membership as compared with the existing membership of 680?

Mr. Boich: We have never analysed the OASBO group. If you ask me that question for the association, we have done it now. I would estimate well over 50 per cent and not more than 60--in that 50 to 60 per cent range. I feel a little uncomfortable with that because we have not done the study, but we are extremely well recognized by every trustee group in the province. They support their membership and very often pay for the membership of their people because of the professional development component. But, very roughly, the estimate would be 50 to 60.

Mr. Williams: So, the bottom line is that it is not a mandatory 100 per cent, like the teachers' federations, but voluntary. You have got over half, in any event--

Mr. Boich: At least.

Mr. Williams:--and I presume you are working on the other 40 or 45 per cent.

Mr. Boich: Yes.

Mr. Chairman: Are there any further questions from members of the committee at this time before we invite those appearing to interrogate us?

Mr. Haggerty: I have a question to the witness. You said you did not support the PURS program. Have you any other reasons for not supporting it? You answered some questions by the chairman on this.

Mr. Brown: One of the major reasons that I do not support it on behalf of the association is that it allows opting out; there is an opting out aspect to it. I just cannot support that.

Mr. Haggerty: Is that your only reason or are there others?

Mr. Brown: Other than the one I have mentioned--that it is an Ontario pension. With the mobility of the work force today, I think the portability factor in other provinces is really essential in this nation of ours. It should not be a provincial one, but a Canada one. Those are the two major factors.

Mr. Haggerty: Thank you.

Mr. Williams: I have one other point for clarification, if I might, Mr. Chairman. At one point in your presentation, Mr. Brown, you were talking about a voluntary aspect of additional pension programs, and then you were talking about the mandatory aspects. While you do not support PURS because of its mandatory features, I thought, in one sense, you were supportive of--

Mr. Brown: I am afraid not, sir. I feel that the pension plan is mandatory. I feel it has to be mandatory to handle the funding and to provide the security so that they will not come along and cry to you 50 years hence, "I cannot survive."

Mr. Williams: Do you see any way in which that mandatory feature could be developed in the private sector, if we moved in the direction of leaving the pensions in the private sector to let them develop the program?

Mr. Brown: Only if you gave a carrot to employers. You recognize, as I do and as this group does, small businesses and how they are going to survive. The mandatory factor would have to be mitigated to an extent by some carrot.

Mr. Williams: Through all of the different groups we have heard, we have not pinpointed the exact age, but those who have appeared before us here are of a younger age group than we are. They seem to have less desire to get involved in a pension program, much less a mandatory program, whereas conventional wisdom seems to come into play as we move into the older age brackets such as ours. We see that there is some benefit to be derived from having in place some mandatory feature of a pension benefit.

2:40 p.m.

Mr. Brown: Our group covers a pretty broad range in ages, and they have endorsed the mandatory pension aspect. I think that at times, and you do it in other circumstances, you have to impose on people certain benefits which are necessary to sustain certain aspects of life. You have to impose things. You impose laws on people to behave properly, and you have to impose them so that they can live adequately. I would not be embarrassed in any type of a democracy to say that is taking away human freedoms and rights. That is just plain common sense.

Mr. Williams: Even for those in the 18-25 age bracket who do not feel pensions are that relevant to their particular needs, you feel there should be some form of direction to them to get involved in the pension process.

Mr. Brown: That is right. They did not even want to go to school, some of them.

Mr. Chairman: Even they may fall victim to the ravages of time.

Mr. Brown: That's right.

Mr. Williams: Doesn't that lead us back to the provincial universal retirement system concept? Surely the most salient feature of the program is its mandatory aspect.

Mr. Brown: Yes. There is nothing wrong with that concept of PURS. That is a good idea, but it is too restrictive. It is restricted to Ontario, and it does not have the other aspect of magnitude.

Mr. Williams: While you consider it unrealistic, you are doing it in the context of the national picture and not necessarily of the provincial picture.

Mr. Brown: It could supplement other plans.

Mr. Williams: While it would be viable at the provincial level and would help the people of Ontario to arrive at its full potential, you feel it should be introduced through the other provinces almost concurrently, if possible.

Mr. Brown: That is right.

Mr. Williams: Were there features of the PURS program as spelled out in the report--other than that it would be limited to Ontario at this time, which nevertheless would certainly benefit you and your association and members--that you feel should be refined to better meet what you see as a valid need?

Mr. Brown: One of the things that concerned us was the wiping out of existing plans such as OMERS. This concerned us when we had a plan that was working and funded.

Mr. Williams: Did you not touch on the escape mechanism, the opting-out feature? You talked about the opting-out feature earlier, I believe. Would that not be the escape mechanism that one could use to provide some flexibility, if you had a plan that was better than the PURS plan, such as OMERS?

Mr. Brown: OMERS could not do what PURS would. It is not equipped to.

Mr. Williams: It was not designed that way.

Mr. Brown: They cannot handle the PURS.

Mr. Brandt: Mr. Chairman, I wanted to pursue the question you addressed earlier in regard to part-time workers and coverage under OMERS. Do you know at what point OMERS kicks in as regards pension coverage?

Mr. Brown: I think 24 hours a week is the point at which they will accept membership.

Mr. Brandt: We have asked this question of other organizations and groups that have appeared before us, and there seems to be a vast number of different configurations that they arrive at. Some put it on a yearly basis, for example, a certain number of hours per year Is it mandatory at 24 hours? Must the employee at that time begin his contributions?

Mr. Brown: In a board of education, it is mandatory. With the OMERS plan in effect, then they have to join; it is not optional.

Mr. Brandt: Is there anything from one hour to the 24 hours that they can contribute towards on a voluntary basis? In other words, is there any in-between kind of thing?

Mr. Brown: Not that I am aware of. It is nothing or 24.

Mr. Brandt: In effect, the part-time employees have no opportunity whatever to make contributions towards the OMERS plan.

Mr. Brown: That is correct.

Mr. Chairman: Are there no further questions? Mr. Brown, Mr. Spencer and Mr. Boich, you had indicated there was to be a flow of responses going the other way.

Mr. Brown: I have some questions. I don't know whether you are in a position to answer them, but I would like to ask the questions anyway. First, what is the status of the Canada pension plan negotiations as far as you are now aware?

Mr. Chairman: That is an excellent question. It is one that the committee wishes to pursue itself on its own initiative with the federal authorities. We were not able to meet with the federal people to determine the status of their green paper, or to exchange views or dialogue in any way. It was not as a result of a lack of effort on our part. It was, I gather, that the federal people wished to--

Mr. Brown: There was an attempt made, Mr. Chairman, was there?

Mr. Chairman: Yes. I made a concerted attempt to have the members of this committee meet with both staff and Madame Monique Bégin in Ottawa or here or both, or even have a telephone chat with the minister to get some inkling of what was going on or to exchange some views. I must confess that my efforts, although persistent, were not successful.

Mr. Mackenzie: The problem is the Liberals don't know where they are going, and they are not getting much help from the Tories.

Mr. Chairman: I can't say very much more than that.

Mr. Brown: It leaves us and, of course, you too just grasping at thin air. This whole pension thing is influenced to a fantastic degree by the Canada pension plan. Here you are struggling to come up with something without having the base established. I don't know how you can report to the Legislature until you can find something.

Mr. Mackenzie: If the Tories take the lead, the Liberals will jump on board. That is what I have been trying to tell you all along.

Mr. Chairman: I really appreciate that confidence.

Mr. Brandt: It was ever thus.

Mr. Mackenzie: We would even support you.

Mr. Chairman: That is almost an inspirational burst of confidence in the Conservative government. We see the strength of the Canada pension plan in terms of its universality. I think everyone acknowledges that, whether or not people agree on reform and, if so, what type of reform. But it does happen to be a plan that covers basically all Canadians with the exception of Quebec, which has its own plan. Ontario has a special role to play in that Canada pension plan, as you know.

Mr. Brown: You can veto it from your strength of people in numbers.

Mr. Chairman: That is right. Ontario feels it has a special interest in the subject matter, and this committee feels that if it is going to make recommendations of credibility in connection with the Canada pension plan, it should have some dialogue with the federal people who, presumably, have been giving a great deal of thought to changes in the plan. Madame Bégin has indicated the importance of pension reform as a matter of federal priority. However, we haven't been able to establish contact of any meaningful nature with the federal people.

Mr. Mackenzie: Maybe there is not enough money in the federal budget.

Mr. Chairman: I am not going to speculate. I just want to state the facts.

Mr. Brown: Maybe we have to wait for Egypt to bail us out.

Mr. Chairman: Next question?

2:50 p.m.

Mr. Brown: The next question, Mr. Chairman, is can you tell us what your committee's timetable is, what you hope to do?

Mr. Chairman: We hope to complete our deliberations by the first week in February and prepare our final report for submission to the assembly when it reconvenes, presumably in March.

Mr. Brown: Do you anticipate there will be provincial legislation affecting the Pension Benefits Act in the session that will commence before the June recess?

Mr. Chairman: I would not suggest that I, as a supporter of the government or as chairman of this committee, would have any influence in that direction, but you can rest assured that I will make an effort to ensure that the task of this committee is considered and implemented in some respects fairly quickly.

Mr. Brown: Thank you.

Mr. Haggerty: In the fullness of time.

Mr. Brown: In the fullness of time.

Mr. Mackenzie: If we do not move this session, we are wasting a lot of time and money, and we would hope there are some recommendations out of it. I am always a little cautious on that.

Mr. Boich: I recognize the assembly's concerns are mostly policy, but would it be possible in your report to think about the implementation of that plan a little more? I would like to focus on the young. There is always the tyranny of the majority and we are having the tyranny in the marketplace of the majority of the population which now is in the 30-year age group. If you look at marketing, that is where the marketing is focused constantly.

The younger people of 18 to 25 no longer have the majority, and that is inching every year away from them. I would hope in the implementation of a possible mandatory plan, you would think about ways and means of helping young people understand the importance of this as opposed to assuming it is good for them.

We have sometimes had some difficulty in implementation of policies at the assembly level, doing things in the best interest of the people but at the same time not helping them understand that. That is from a practising administrator. It does cause some serious problems and maybe a slight paragraph or two on that would be useful in your report.

Mr. Chairman: I appreciate the message of getting the message across. I think it is important to be able to explain to people in as simple a fashion as possible what pensions are all about or, if you get into the economy, there are messages there, too, I am sure, that both the private sector and government could do to assist people to understand a little better. I guess it is one of those continuing problems of communication where you have to be careful politically that you are not accused of propagandizing, but educating or informing.

I am no expert in that area but I understand what you are saying. I certainly concur there must be some way of getting issues out to the public even though they seem sexless at the moment and dull and uninteresting, but nevertheless important and will become significantly more important as time goes on.

Mr. Boich: I would like to make one other comment about whether private enterprise should get directly involved in this. When you have a mandatory plan, if that is what you go ahead with, I think it ought to be stated that the bureaucracies of government do a fine job in making sure that there is equality. Sometimes the private market cannot do it and, as long as it is mandatory, I think it should be within the purview of governments.

I worry about mandatory programs being fragmented in the private sector and I have not heard anybody explain how it would happen because the marketplace is supposedly based on competition. If you have a mandatory program, I fail to see the competition. Maybe there is something there I am missing.

Mr. Chairman: I suppose legislation is mandatory. If you are going to legislate minimum standards or requirements, it is a matter of developing a set of rules that are equally applicable so that competition maybe takes place from there.

In any event, we are looking forward to some immediate improvement of the pension system. Unless there is some stimulation, probably coming from government, you are going to wait a long time before you get that initiative on an individual competitive basis in a free market system. Are there further comments or questions?

Mr. Mackenzie: It is just curiosity, I guess, from the comments you just made. I am wondering what you would think of a

little more control over the direction of Canada pension plan funds into the private sector. I personally happen to think it is a bit of a red herring as we hear how the money is invested now in any event, admittedly going through the provinces in most cases, still borrowing.

If there was a little stricter direction, if you like, in terms of funds that are available, CPP collections to the private sector, would that accomplish or offset in your opinion some of the fears or beliefs that we should have more privatization?

Mr. Boich: People cannot have it both ways. They want the government to secure their pensions and their funds and at the same time they want government to take that risk on their behalf, rather than individuals taking the risk. I do not think you can have it both ways. I have never been upset that governments have used the people's money to fund its activities, again that being the people.

I think there have been attempts by governments to stimulate the economy when necessary, as is being done now. I am not a critic of the government and how it uses its funds. It has been a little too sharp. I think the three per cent on certain funds and six per cent was a little low, but that has been released. I do not think the public can have it both ways. You want the security and it is your government that is doing things on your behalf. I have no difficulty with that.

Mr. Brown: Mr. Chairman, on behalf of the Ontario Association of School Business Officials, thank you very much for allowing us to be here today.

ONTARIO ASSOCIATION OF EDUCATION ADMINISTRATIVE OFFICIALS

Mr. Chairman: We appreciate your attendance. The second delegation this afternoon is the Ontario Association of Education Administrative Officials. Mr. Lloyd J. H. Campbell is controller of finance and plant, board of education, for the city of North York. Mr. John D. Gowing is area superintendent, Northumberland and Newcastle Board of Education. I believe Mr. Boich is executive director, if I am not mistaken. If you are ready for us, we are ready for you.

Mr. Gowing: Mr. Chairman, members of the committee, my name is John Gowing and I am president-elect of what some people like to call the vowel association, OAEAO. On my extreme right, you have already met Mr. Boich. Next to me is Mr. Lloyd Campbell. As you will see before you, from your previous presentation, that association and ours have many things in common, not the least of which is our executive director.

Mr. Chairman: You would not call that infiltration either.

Mr. Gowing: You might possibly be interested to know the little differences in our organization. Our prime field of endeavour is education in Ontario. The former group represented solely business officials in the educational endeavour, whereas in our organization--other terms you may hear under the Education Act and its regulations--the members of our association are supervisory officers. The majority in our association would be academic

officials, although many of the members of the former organization are members of our association as well. We do have business officials who are supervisory officers and part of our association.

3 p.m.

Very briefly, I would like to offer appreciation to you for the opportunity we have already had to comment on the report of the Royal Commission on the Status of Pensions in Ontario and, more particularly, for this chance to discuss some issues in person. The chairman of our select committee is Mr. Lloyd Campbell and I will have nothing further to say.

Mr. Campbell: Mr. Chairman and members of the committee, first of all, I would like to make it clear I am not a pension expert. I guess one of the reasons I have been assigned this responsibility on behalf of the membership of our group is that I have more than a passing interest in the whole matter of retirement policies, the whole matter of retirement planning. As the joyful day seems to be coming down the track towards you, it is remarkable how your interest intensifies. So it is my privilege to share with the committee and discuss a number of items the association has discussed through my committee. I have committee members who are academic administrators and also committee members who are oriented to the business aspects of boards of education in Ontario.

I think it is imperative that we begin to look at the whole question of retirement policy. We are told, at least I am told, and I read in a number of articles, that the ageing population of our nation is increasing almost in the same proportion as the school population is decreasing. It is ironic that we are administrators of school systems that are struggling and devoting all our energies to coping with declining enrolments. So this is rather a change of pace for me to come along and address a committee on a matter that is at the stage where, as I understand it, it is growing, the concerns are growing, and I think the economy of the country is going to be faced very quickly, from what I am told, with an ageing population. As I say, it is rather a change of pace for me and has been an enjoyable study.

I would like to commend the government of Ontario for instituting the Royal Commission on the Status of Pensions in 1977. I'm not surprised it took four years. I would like to commend the committee, the chairman and its members, for the very extensive research they must have done, and the very careful deliberations they must have gone through, to come up with in excess of 150 recommendations for consideration. One cannot--I must confess I have not--read all the volumes. I have concentrated my study basically on the summary that has been provided, but I must confess the committee has touched on all phases of pensions in a monetary aspect, and it has dealt with issues that relate not only to the employers but also to the employees.

I guess my remarks this afternoon are related more to the impact of this study on the employee as opposed to the employer. In all the discussion that has taken place in recent months, I think there have emerged a number of things that have caught public accord or public acceptance, and it is generally accepted now that

mandatory pensions are essential to any retirement policy of our country. No longer can we permit people to float in and out of pension plans. No longer can we permit people to have an option of ducking out of pension obligations. The issue is clearly before us. It has to become mandatory if it is going to be effective.

I know there are a lot of publications out saying X percentage of the population has no pension plan, or this segment has no pension plan or does not have a pension on retirement. That is hardly a fair criticism in that many of them dropped out or elected not to participate in a pension plan that was offered by their employer, or on termination did not pursue providing for their retirement benefit. The mandatory aspects of the pension plan are now clear. If we are going to have universal coverage, then this seems to be one of the elements on which we have to concentrate. Like my colleague, Mr. Brown, I have some reservations in thinking that PURS is the answer to this universal coverage. Yes, it is universal in Ontario, but it does not contribute to the mobility of our labour force.

Also my concern is that an independent businessman may say: "The government is looking after pensions now, so I really do not have to concern myself with that. The government has provided a universal pension plan in Ontario, so that lets me out a little bit." I don't think it's as simple as that. We must encourage small business to launch into a pension plan for its employees. This is a very difficult thing to do. It is very costly, and how can a small businessman possibly compete and have to provide a pension for a small number of employees? The plan may never become viable enough to have his costs at a reasonable level. Nnevertheless, I think we, as a province, and Canada, as a country, have an obligation to come up with some incentives that will enable a small businessman to establish a pension plan for his or her employees.

We have all been hearing about a number of creative ideas that have been viewed by the public as a disincentive to some of our people through the tax structure in recent months. I think equally there can be some creative thinking to establish some incentives, something other than being able to write off your pension contributions as a charge against your business expense. Sure, that's good, but does it go far enough, and is it stimulus enough for a small businessman to embark on such a scheme? So the mandatory aspects, I think, are essential.

The other element I would like to talk about briefly is the question of vesting and portability. In all the reading I have done, I do not think there is anything that has caused more public concern or focused more on the inadequacies of our present system. The report of the royal commission highlights this. It responded very admirably to the terms of reference given to it by the government, to examine the terms and conditions of existing retirement plans and to evaluate their effectiveness. Surely one of the most ineffective features of our present plans is the matter of vesting and portability.

These are not easy issues. You can understand how vesting and portability have developed when you go out and hire a pension consultant and you commission him to bring to your company a

pension plan that is both reasonable in cost, something you can afford, and at the same time restrains or restricts any liability that might otherwise accrue to you as an employer. So any pension plan consultant is going to do two things. He is going to put in a very high vesting age, which cuts the cost down, and he is going to cut out the portability. These are very real questions.

3:10 p.m.

I commend the committee. I noticed in your first report that you recommended to the Pension Commission of Ontario a vesting period of five years. More important, I think you have put a rider on it that you would like to have this reviewed within the next three years. This is a cautious move. You are recognizing right off the bat that this is one of the elements of our system that is wrong, and you are bringing it to the attention of the proper authorities. You are being prudent by saying: "Let's go five years. We're not ready yet to go two years or one year or whatever. Let's review it." So that is a very positive step forward.

There must be thousands of Canadians out there whose vesting privileges are not meaningful to them any more. The worker has personally been financing the mobility of the labour force in this country. When you get right down to it, it has become known to those of us who have looked into this that when you leave a company and you have a vested pension of X dollars, payable at normal retirement age, when you look at the cost of that benefit you'll find that the employee has basically paid for it himself with his interest and his contributions. Your committee has addressed that problem: that 50 per cent of the cost of these benefits must be paid by the employer.

The question of portability is much more complex. I don't know how this can be addressed except in the manner in which you have suggested: that the employee take out his pension into an registered retirement savings plan and at least have that benefit accumulating on his behalf.

I will just refer generally to the compulsory, locked-in vesting that has been referred to. A number of your recommendations have endorsed the recommendations of the royal commission on this whole matter of vesting, and I think the committee has gone about as far as it can go in this area at this time. But it's a problem that has to be addressed more universally; then something has to be created and thought about in that area.

The other matter that I think was grossly unfair was the rate at which our benefits or our deposits increased. It is unconscionable, really, to think that employees' contributions should be allowed to progress at three per cent per annum. The committee has addressed that problem.

These are issues that are now coming to the attention of the public, issues that were heretofore suspected but not known. I think it's important that they be addressed, and you have done so.

On the question of inflation and indexing, I might just step back a step. The gentleman over here asked Mr. Brown if we had any concerns about the Ontario municipal employees retirement system. I think it's a well-funded plan. The only concern I see, and it's very prevalent in the business element of our organization, is a very severe penalty for anyone who retires before age 65. In my capacity as controller of finance and plant I have got people with 25 years service who would love to retire, and they're now 53 years of age. The women's husbands retired when they moved out of town. The ladies come and say: "I want to retire." I say: "No, you can't. You have to wait until 55." And when they do, the penalties are so severe that they can't understand how anyone with 25 years service can find himself in the position of retiring at 55 or 57 and being penalized as much as he is.

There's a cost to early retirement, a very real cost. I'm saying that in the whole planning, whether it requires an additional contribution or whatever, we have to address the fact that some people have to retire before age 65, and maybe some consideration could be given to giving a measure of relief to 60 or 62, following 20 or 25 years of service. OMERS does have a plan such that, with 30 years service, you can retire on full pension without penalty. In the group of business officials I represent there are only a handful of people--Jack Brown is one of them--who had over 30 years service. Most of us came into the business in a consolidation of school boards in 1969, and you'll know that about 400 boards in Ontario were consolidated into--what, John, 130, 140?

Mr. Boich: It is 185.

Mr. Campbell: When that happened many people came into the system in mid-stream. Most of us have, say, 20 or 25 years service, maybe less than that, and if they want to go out the penalties are very severe. But maybe something could be given to that aspect. I do support the idea that pensions for early retirement should be funded. The association, I think, endorses that principle.

On the matter of inflation and indexing, I am sure this committee has heard many, many arguments for or against this whole issue. I am pleased to note that your committee and also the royal commission endorse some form of indexing, and they are suggesting the excess interest element of the investments as the means by which you can fund this. This is a reasonable approach; it's one that can be afforded, and our association would endorse that wholeheartedly.

I would like to see it become mandatory, not optional. It's being done optionally now in so far as people can handle it. I'd like to see it become mandatory that excess interest be applied in this way so that employees are not held in limbo. The royal commission suggested that these matters should be negotiated. In principle that's right; I can't fault that, except that the guys coming up for retirement are a small portion of the total bargaining unit. What chance have they got to negotiate this element into their contract when maybe 60 or 75 per cent are five or 10 years away from retirement? So the principle is right; I think the practicality might be hard to implement. For that reason I think we would like to see a mandatory provision that the excess interests be applied in this manner.

On the question of survivor benefits, we do endorse the 60 per cent rule for the survivor. We would like to see survivor memberships mandated. The employee should not be given the choice of saying "Yes, I will take this" or "No, I'm not going to take the joint survivorship plan." He shouldn't have to say that. In my view, if he is married and has a spouse the obligation is there. It's easy to say: "Oh, well, somebody else will look after us." No, I would like to see it mandated so that there is no choice. And most public service plans, you will know, are that way; there is a joint survivorship plan. In private plans, by virtue of the costing components, there is an option given in that area, and I'd like to see that made a little less flexible to the people.

Mr. Chairman: If I might interject at this point, maybe I could comfort you by suggesting that this recommendation and others were advanced with the idea that they would be legislated as minimum requirements recognizing the importance of a survivor having some income. Insurance policies have statutory conditions that follow as a result of the law. I assume that maybe there would be some basic, minimum standards that would be implicit in every pension plan as well. I'm just making that editorial comment, if I may.

3:20 p.m.

Mr. Campbell: I have very few other comments to make, other than, in the general comments, I think the association prefers a defined benefit plan to the other suggestion of a defined contribution plan. The reasons are that the employee really doesn't know what his pension is going to be on a defined contribution plan, and also the report indicates some 92 per cent of the pension plans now in existence in Ontario are defined benefit plans. This is clearly accepted by employees and employers as being a good arrangement. I think it would be a retrograde step to impose a defined contribution plan. So our association supports the defined benefit plan.

The mandatory retirement question is something I would like to see left up to the employee and the employer. As it is now, the normal retirement age of any employee is 65, but I imagine any employee who can give a convincing argument or some benefit that is unusual in its aspect could have his employment extended if there were extenuating circumstances. On the other hand, I think it's normal and I would like to see this a matter of negotiation between the employees and the employer. I wouldn't want to see it mandated. We would like to see it freer.

The royal commission did address the question of funding of pension plans. All I would like to add at this point is that we would like to see them more self-supporting than they have been in the past. We would like to see the investment policy diversified into marketable securities and so on, as is recommended by the royal commission. I really haven't any economic statistics on this and I am aware of the impact it might have on the economy of the country, but we would like to see a greater contribution on the part of the government to the private sector in the investment of the proceeds of its pension funds. We would like to see governments

take more of a leading role in this matter, but once they do that, it has an immediate impact on the economy and it may not be in the best interests. But as a principle, we would like to see them take a more aggressive role in supporting the private sector of our community through the investment of their pension funds.

The last thought I would like to leave with the committee is that all the literature I have read seems to indicate the public wants something done now. I would like to see the Canada pension plan expanded. I mentioned in our brief that housewives should be part of the Canada pension plan. Why not? They contribute to the economy like anyone else. They are an essential element in the national product, whether we like it or not. You can't measure it but it is there. Why should they not be part of the wealth of the nation? Our group supports that stand. Also the disabled person must have dignity as well as the rest of us. Surely it is incumbent on those of us who have health and regular work to assist in this area. Personally I would support it. I think my group does too as a general, philosophical outlook.

Mr. Haggerty: You mentioned bringing the housewife into the Canada pension plan. Has your group considered any procedure to do this?

Mr. Campbell: Yes. I see no reason why a family should not be permitted to contribute both the employer and employee portions of an amount of money, whether it is the average industrial wage or whatever, to the Canada pension plan.

Mr. Haggerty: You are talking about a person in a small business, a store operator, who has a wife who works in the store as well as he does, but what about a housewife?

Mr. Campbell: Why should I not be able to buy a pension for my wife? I have no means other than an RRSP that is cut off at $3,500.

Mr. Haggerty: How would you bring it in under the Canada pension plan?

Mr. Campbell: Register it.

Mr. Haggerty: Register it, but how would they contribute and what amount of money?

Mr. Campbell: Just send the government a cheque. On a fixed amount of money, whatever rate you wanted to value it at, say $10,000 a year, you send the maximum amount into the Canada pension plan for both the employer and employee's share. A family would do that. You pay your way just like anyone else. Therefore, why would you not be entitled to a pension?

Mr. Haggerty: I agree with you, but I am just trying to find a method.

Mr. Campbell: That would be the method.

Mr. Haggerty: That is what you are suggesting.

Mr. Campbell: As I understand it, all three political parties in Ottawa have endorsed this concept, and I think if it is supported, it will go. I don't see any reason why it shouldn't go. It is deplorable what we have done to the women of this country on pensions, and I would like to see some action taken in this area. The argument against it is that you are discriminating between people who can afford it and people who can't afford it, and that's a valid point.

Mr. Haggerty: There are many housewives who would prefer to stay home and raise children and leave it to others to go out to work.

Mr. Campbell: Mr. Chairman, I am sorry I have gone a little longer than I anticipated in my review but if there are some questions you would like to ask, I will attempt to answer. Thank you very much for the opportunity of presenting our brief to you.

Mr. Chairman: Thank you. Did Mr. Boich wish to add anything, or Mr. Gowing? If not, then maybe Mr. Haggerty could carry on with his questioning unless he's finished.

Mr. Haggerty: No, I just wanted to follow up the question of just how we could phase it in. I have heard other witnesses before the committee suggest the housewife should be included under the Canada pension plan, but they never give any suggestions as to how you go about bringing them in. I have seen studies and reports that show what the housewife does for the family is itself worth more than $10,000 a year.

Mr. Campbell: I haven't really thought out the mechanics of this, Mr. Chairman, but it seems to me we have the mechanism in this country to keep track of people for tax purposes and their dependants and so on through tax computer technology. I would think, at the time you file your tax return or some time, a mechanism could be established in which, if you want to register your wife for Canada pension purposes, you could be accorded that privilege.

I'm not saying it should be a taxable deduction necessarily, but I think an opportunity should be given for a family to provide in some measure for the retirement benefit of the housewife. As to the actual mechanics, I think this is a matter that could be worked out through the computer technology now existent. We are all registered through a social insurance number and I think our tax returns indicate our status. Maybe some creative thinking could be done along this line to make it possible.

Mr. Boich: For some time, our association has had a small problem we haven't been able to resolve. We have talked about it with the Ministry of Education, both with Mr. Wells and Dr. Stephenson. It is that legislation permits people to become supervisory officers through two routes, one where you are an academic coming as a teacher, the other where you are coming as somebody like Lloyd Campbell and Jack Brown. They have different pension plans and that causes the association a great deal of difficulty where you have colleagues with the same status having different pension plans.

3:30 p.m.

If they do not happen to be teachers, they cannot get into the Teachers' Superannuation Act. Yet we find people in community colleges, who do not have a teaching certificate, are able to make some kinds of adjustments within the Ontario municipal employees retirement system so they have a parallel program to the teachers' superannuation fund. That gives us some great difficulty because our business colleagues, who are supervisory officers and senior executive officers of school boards, are penalized.

We would like you to look at those pieces of legislation which do not transact into what we think is a fair and equitable superannuation or a pension plan. It is very difficult accepting that when we see 22 community colleges with many master teachers who have no teaching certificate able to do that, whereas a supervisory officer who happens to come from a business route and does not have any teaching certificate is not able to do that. There is something incongruous about that.

As you know, with senior executives, one of the different things that happens perhaps does not happen with middle management in other places. These are really seven-day-a-week employees and work different hours than most people in our society, who have some concerns about a small group of people. There are only about two or three per board and, if you took the 185 boards, you might be talking about only 250 people.

We feel there is a sense of discrimination. Both ministers felt they could not deal with it because of the Haley commission and because of you deliberations. It is only a very small group, but there is some sense of discrimination on behalf of those people who are their direct colleagues. I know it is difficult for you.

Mr. Chairman: I almost said that the reason for delay will no longer be valid pretty soon as the Haley commission's work is completed and this committee's work will soon be completed. Mr. McClellan wants to chair another committee reviewing our report.

Mr. McClellan: We will think of something else.

Mr. Chairman: I do not think so. I think we are all anxious to see some positive steps and action instead of more words. Are there further questions from members of the committee?

Mr. Williams: One small point, Mr. Chairman: On those specific recommendations that you singled out as ones you did not concur in, you were touching on that a few moments ago with regard to the women and the homemakers and so on, and you made reference specifically to the recommendation that there be no credit splitting on divorce.

The royal commission, of course, made a number of recommendations that would probably upgrade the existing situation as it exists under our family law reform legislation but, at the same time, as I recall, they were taking the position that credit splitting is more a matter of decision by the courts rather than by fixed legislation as to what division of interest would be in the event of divorce.

I do not know they were necessarily avoiding the issue but felt there were legitimate areas of responsibility here. To show their real concern in this area, I think their recommendations 145, 146, 147--and 147 of course deals with this matter that "Ontario should take no new steps to support the use of assumed need arising from martial status as a basis for employment pension design."

In these areas, I think the commission saw there was certainly a changing social dimension here as far as the women in the labour force and their individuality was concerned. They are suggesting making some positive recommendations but, with regard to that one particular provision, in singling that out, I think one could conclude the report was not sensitive to that issue or not supportive of women's position, which I do not think is, in the overall, the view of the royal commission at all. Would you care to comment on that?

Mr. Boich: The problem with your question on behalf of the association is that it has not been discussed in the depth it should be, except there is both a joy and a tyranny in marriage and it is the tyranny that is of great concern to us.

That a woman or a man should be dependent on each other in a very brand new age in which, regrettably, divorces are becoming more common, takes you into some very interesting dark alleys, not the least of which is the tyranny of the woman having very little income, and therefore some sort of pension or protection is necessary, and the tyranny of the man of having to split it up and having literally no life. There is no conclusion to it, and that is why Mr. Campbell hammered on the CPP as being very important so that there would not be that tyranny, particularly of women, that they would have some security.

Income splitting is a very interesting area. I think the courts have a very difficult time with it, of not imposing a tyranny on either the man or the woman. Maybe if you keep away from income splitting, which the commission has done, and you focus on CPP, you begin to look at the tyranny that can be imposed on an individual.

If you take a position that there will be no divorces, of course, there is joy and you do not have to worry about the tyranny. Then you have another form of tyranny. The point of fact is our society, rightly or wrongly, does have that problem and it is an awful problem. I do not think a woman, particularly the housewife, should be exposed to that tyranny. She should have some sense of independence and security. At the same time, I do not think a man should also have another kind of tyranny. "What is fair?" is the question we are trying to answer. It is obviously not fair for the woman right now in some ways.

Mr. Williams: I do not disagree with what you are saying. I just think the observation you make is perhaps simplistic in the sense it suggests, again, that the commission was not sensitive to that problem and aware of the changing social circumstances. I think they made some very constructive recommendations with regard to amendments to our existing legislation that would, for instance, treat pensions as income in retirement which would be a source of support, which at present they are not.

That is one example. It would be a great breakthrough. In this day and age there are cases where the woman is the bread-winner in the family rather than the husband, or is bringing in more income than the husband, so a straight 50-50 splitting of interests does not necessarily hold as it might have been conceived to have been the appropriate approach 10 or 15 years ago.

I think it was to that particular new dimension that the report addressed itself. Each one of these cases almost has to be considered on its individual merits as to what the division of property assets will be where there is a divorce. While the pension would be part of that assessment, as it should be, it would not necessarily be down the middle, given the individual circumstances, no two cases being the same.

Mr. Boich: My greatest concern is for those people who could not afford an add-on at their income level. They need every dollar to survive. It is that group--I don't know what percentage but I would suspect a large percentage. Maybe you are going to have to start to look at the idea of a built-in pension where--this may be even advocating divorce--depending on how many years you were together, that pension would go with the wife and the husband in a kind of way that would be built-in rather than add-on.

3:40 p.m.

I don't want to pursue this too much because you get into deep trouble. I am really worried about the group on the add-on which Lloyd mentioned that couldn't afford it. The rich get richer and the poor get poorer and I don't think that is in our best interest in society. There is that widening gap; you and I know, the people are really stretched, particularly today. To become both an employer and employee for benefits for the housewife, that would be an additional sum which would be very difficult.

Mr. Williams: Grappling with the problem of the permanent part-time worker is complex enough but dealing with the nonsalaried worker is even more difficult. We realize at the same time we must address ourselves to these problems because they are really important social issues that the pension field mustn't ignore.

Mr. Boich: That is the exciting part of being on the committee, as you are. You give your additional time and try to be as creative as you can. I don't think anybody appreciates the social dilemma you are going through. It is very difficult.

Mr. Chairman: We won't explore negative income tax then.

Mr. Boich: I don't want to get in there.

Mr. Chairman: Okay. You are saying this, Mr. Williams, not as an authority on tyranny now.

Mr. Williams: No. Both your submission and the preceding submission were sort of unique in that you were both opposed to PURS while adopting the mandatory aspects of it. That was rather unique. Some people have either rejected it because of the

mandatory feature, which is the main element of it, or supported it. Here you seem to be rejecting it simply because it was not nationalistic in scope. Otherwise, you were supportive of the principles in PURS, which is that mandatory feature.

Mr. Chairman: Gentleman, we appreciate your attendance this afternoon and thank you for your time.

That concludes the delegations for this afternoon. Are there any other items of business before we adjourn? I am going to have to do some rescheduling in terms of additional attendance that will be accommodated as a result of the request by Mr. Gillies. We will try to arrive at an updated agenda.

Mr. Gillies: I thank you for that. I wonder if, in your consideration of the scheduling matter, once it has been disposed of as to where that delegation would fit in, you might give us some guidance on the proceedings of the committee from January 27 on. If we are not going to Ottawa and don't have an opportunity to meet the federal officials, will we then use seven or eight days to consider the final report? Or could we perhaps not sit Thursday and Friday, January 28 and 29, and come back at it for a full week or something of that nature?

Mr. Chairman: As you will recollect, we backed up some of those delegations in order to free us as much as possible towards the end of our sittings so that we might consider in some depth the subject matter of our deliberations. We have pretty important areas--the public sector, PURS, the Canada pension plan, and so on. That was the time schedule I thought I would give some attention to in accommodating your particular request and giving some direction to the committee in terms of the balance of its timetable.

Mr. McClellan: There is just one problem with respect to the scheduled session on February 5. You may or may not be aware Mr. Mackenzie and I will not be here. That is the opening day of our leadership convention.

Mr. Chairman: Let us take a look at that. I think maybe we can assure you, Mr. McClellan, that we won't make any recommendations in your absence which would increase the length of your--

Mr. McClellan: Moustache?

Mr. Chairman: --moustache. We wouldn't want to do that. I think in the spirit of co-operation we want to make sure we are all present when the decisions are made. We will accommodate you.

Mr. Cousens: It would seem a good part of the writing could be prepared for the committee to start looking at the recommendations we want to make starting around February 1 and then proceed from that.

Mr. Chairman: I am hoping we will be in a position to have some material to form the basis of discussion and subsequent recommendations by then.

Mr. McClellan: We have already started working on our dissent.

Mr. Chairman: I avoided the word "dissent" and substituted "moustache" in my previous reference to increasing the length of your dissent. We won't do anything in your absence that would extend any perceived dissent. We hope there isn't any dissent, but there may be.

Mr. Gillies: I can't imagine that this committee would ever produce dissent.

Mr. McClellan: I can't either but I thought that last time too.

Mr. Chairman: If there are no further matters, then the committee stands adjourned until 10 o'clock tomorrow morning.

The committee adjourned at 3:50 p.m.

PR-14

SELECT COMMITTEE ON PENSIONS

ONTARIO TEACHERS' FEDERATION
CANADIAN CHAMBER OF COMMERCE

WEDNESDAY, JANUARY 20, 1982

Morning sitting

SELECT COMMITTEE ON PENSIONS

CHAIRMAN: Taylor, J. A. (Prince Edward-Lennox PC)
Brandt, A. S. (Sarnia PC)
Cousens, D. (York Centre PC)
Cureatz, S. L.; Deputy Speaker (Durham East PC)
Gillies, P. A. (Brantford PC)
Haggerty, R. (Erie L)
Jones, T. (Mississauga North PC)
Mackenzie, R. W. (Hamilton East NDP)
McClellan, R. A. (Bellwoods NDP)
Riddell, J. K. (Huron-Middlesex L)
Van Horne, R. G. (London North L)

Clerk: Arnott, D.

Researcher: O'Mara, Dr. J., Legislative Research Service

Consultant: Bentley, W., Superintendent of Pensions, Pension Commission of Ontario

Witnesses:
From the Ontario Teachers' Federation:
Aylsworth, D., Member, Task Force on the Royal Commission on the Status of Pensions in Ontario
Mangan, T., Chairman, Task Force on the Royal Commission on the Status of Pensions in Ontario
Meek, G., President

From the Canadian Chamber of Commerce:
Clare, J. L., Vice-Chairman, Health and Welfare Committee and Chairman, Subcommittee on Pensions; Consulting Actuary, Fraser Watson Actuaries Ltd./Pouliot, Guerard and Clare Inc.
Coward, L. E., Member, Health and Welfare Committee; Executive Vice-President and Director, William M. Mercer Limited
Dolgoy, S., Chairman, Health and Welfare Committee; Senior Economist, Toronto Dominion Bank
Roberts, S. C., President

LEGISLATURE OF ONTARIO

SELECT COMMITTEE ON PENSIONS

Wednesday, January 20, 1982

The committee met at 10:09 a.m. in room No. 151.

ONTARIO TEACHERS' FEDERATION

Mr. Chairman: You now have in your binders exhibits from the last day.

Exhibit 158 is the Ontario Nurses' Association submission. Exhibit 159 is the Canadian Chamber of Commerce submission. Exhibit 160 is a summary of the presentations of January 14 and January 15 by the committee's research officer. Exhibit 161 is the brief of the Ontario Municipal Retirees' organization. Exhibit 162 is from the Canadian Pension Conference, a memorandum, dated January 14, 1982. Exhibit 163 is a letter dated January 19, 1982, from the chairman of your committee to the Hon. Monique Begin.

Exhibit 164 is Bill 15, An Act respecting the Abolition of Compulsory Retirement and providing amendments to Certain Legislation of the National Assembly of Quebec. Exhibit 165 is the report, dated 1979, presented by John W. S. Arthur of the Canadian Pension Conference and exhibit 166 is a letter dated January 14, 1982, from R. L. Kayler, executive vice-president and general counsel and this is the Life Underwriters' Association of Canada.

This morning we have with us the Ontario Teachers' Federation and that's exhibit 117 for those of you who would like to turn to that submission. We have Mr. George Meek, the president, and to Mr. Meek's left is Terry Mangan, chairman of the task force on the Royal Commission on the Status of Pensions, and to his left is David Aylsworth. Is that correct? Welcome, gentlemen, and we are now in your hands.

Mr. Meek: Thank you very much, Mr. Chairman. I want to take the opportunity to introduce a few people who are with us this morning. We have mentioned Mr. Mangan. We had a task force of five people along with the executive assistant from our own office, Mr. Aylsworth, who put together a brief which came through our executive to this committee. Mr. Mangan is with the Catholic teachers' organization in the province. Also we have Joan Byrne, sitting behind me, from the women teachers; Marc Cazabon from the francophone teachers; Ralph Connors from the OSSTF and Mr. Burleigh Mattice from the men teachers' group. Also we have with us this morning our actuary, Kees Hartog.

We understand that the teachers' superannuation fund is probably, if not in fact, the largest pension plan in this province. It has essentially been in place--it has certainly one of the longest histories--since 1917 and in starting out my comments I will only refer to these matters but I would refer you to appendix A and B of our brief in which appendix A talks about the teachers'

superannuation, the basic plan, and some of the elements of it and the superannuation adjustment fund and some of the elements of that.

I refer you also to appendix B on page 15 and 16 where the recommendations that OTF made to the royal commission on the status of pensions in January 1978 are listed. Some 22 resolutions or recommendations to the commission are listed for your information. Obviously, since that time we have taken the report and analysed it and made some additional recommendations which we are going to discuss with you today.

The Ontario Teachers' Federation welcomes the opportunity to submit to the select committee its opinions and comments concerning the report of the Royal Commission on the Status of Pensions. It is not the federation's intention to address all of the issues raised by the royal commission but rather those related to public sector employment pensions in general, and the teachers' superannuation plan in particular. Notwithstanding these limitations, certain issues which transcend the area of employment-related pensions have also been addressed. The federation's comments are predicated on the assumption that old age security, OAS, and guaranteed income supplement, GIS, and guaranteed annual income systems, Gains, and Canada pension plan, CPP, will continue to exist either in the present or modified forms.

One of the important issues that we want to address as the Ontario Teachers' Federation is pension adequacy. It is our perception that this is not dealt with very substantially at all within the royal commission report.

The commission began its examination of adequacy by considering minimum acceptable levels and poverty lines as suggested by several groups. Finding no sound basis in principle for selecting one to the exclusion of others, the commission determined empirically that the available income from all government programs in 1978 for a married couple, both 65, one of whom has been employed at the minimum wage, was adequate.

Available income to this couple, $8,403 per year, was made up of income from OAS, CPP, GIS, and Gains, plus property and sales tax credits, less income tax. It should be noted that for pre-retirement income at this level, post-retirement available income, or net income, was actually higher than combined proceeds from those four plans. An available income of one half this amount, plus one sixth the difference, or $4,902 annually, was judged to be minimally adequate for a single person.

A variety of post-retirement income levels and net pre-retirement replacement ratios was examined for pre-retirement income levels up to the average industrial wage. The commission concluded that increases to certain allowances, effected initially through the Gains program and later through GIS, were the most effective way of ensuring that available income levels for all Ontario seniors would be minimally adequate.

While the commission's analysis of minimal adequacy levels of available income where pre-retirement income levels are at or below

the AIW is quite thorough, adequacy beyond minimum standards is addressed only in terms of a general objective--to replace a measure of pre-retirement earnings and thereby assist individuals to maintain their living standards.

We underline the next few sentences. OTF believes that for individuals with incomes approaching or exceeding the AIW, who belong to employment-related pension plans to which they personally make significant contributions, the adequacy level of available income from OAS, CPP and the pension plan must be full replacement.

The 1978 study, Canada at the Pension Crossroads, completed by Towers, Perrin, Forster and Crosby for the Financial Executives Research Foundation, revealed that for pre-retirement gross incomes in the $15,000-$30,000 range, an earnings-related amount equal to 56.5 per cent of gross earnings in the year preceding retirement was required to achieve the desired replacement. It is useful to note that with sustained eight per cent salary increases, a 2 per cent per year, best five years' average earnings plan produced a pension for 35 years' service which is 55.9 per cent of the final year's salary.

Section B on money purchase versus defined benefit plans: The report of the royal commission takes pains to articulate the shortcomings of the defined benefit plans while cataloguing the virtues of money purchase schemes. In its enthusiasm to advance the concept of a provincial universal retirement system, PURS, the commission failed to emphasize the positive aspects of proper pension planning under final average earnings plans.

When selecting a pension plan structure for any employee group, the course followed should be one that best provides for the needs such as coverage, portability, vesting and adequacy, while minimizing disadvantages to that group or any portion of it. For certain homogeneous groups, such as teachers, these needs are best met with a defined benefit plan.

With the teachers' superannuation plan, coverage is universal and portability guaranteed within the province's publicly supported education community. Reciprocal agreements afford teachers excellent portability within the Canadian public sector, as well as a measure of private sector portability. Plan-specific withdrawal rates, developed in conjunction with the valuation of the teachers' superannuation fund, indicate that very few teachers leave the profession after obtaining five years' credits in the fund. Hence, several of the commission's objections to defined benefit plans have limited validity for teachers.

<u>10:20 a.m.</u>

However, it is with regard to adequacy that a final-average plan is clearly superior. The teachers' superannuation plan provides each teacher with a known, defined benefit, indexed prior to retirement to the wages earned by the individual during his or her final years of employment and after retirement by the provisions of the Superannuation Adjustment Benefits Act, SABA. The benefit is of sufficient value that when considered in conjunction

with the old age supplement and the Canada pension plan it will provide the full-service teacher with a retirement income which will permit the individual to maintain his or her pre-retirement standard of living in retirement. In marked contrast, a participant in a money-purchase plan is unable to gauge the adequacy of his or her entitlement until the last few years of employment, when it is frequently too late to influence the outcome significantly.

Public sector employment-related pensions plans: There are a number of subsections to this. The commission based its assessment of public sector employment-related plans on three general principles. If the recommendations for public sector plans are to be assessed adequately, each must be evaluated in light of the principles on which it is predicated.

The first, that public sector plans should be regulated on the same basis as private sector plans, has an initial appeal in that public sector plans are really just one category of employment plans. Rules for vesting, lock-in and disclosure should apply equally to all plans regardless of sector. However, when issues such as the amortization of initial unfunded liabilities and employee rights upon plan termination are considered, the principle begins to break down. The ongoing nature of the employer in the public sector plans permits more flexibility in regard to the financing of adjustments for inflation.

Superannuation Adjustment Benefits Act: Presumably, it was this first principle, a concern about the security of pension promises and the belief that all employment-related pensions should be similarly structured, that led the commission to make its recommendation to discontinue the mechanism contained in the Superannuation Adjustment Benefits Act--I think I should point out that we disagree here in our presentation with at least one other public sector group that has appeared before you--for the provision of post-retirement adjustments for public sector employees.

The government, however, is not just any employer but an entity that will continue to exist as long as the society that sustains it. The blind application of an equal-restriction principle to public sector pensions makes no more sense for post-retirement adjustments than it does for plan termination. SABA must be evaluated in the context in which it exists, not on whether or not the concept can be successfully applied in other segments of society.

Arrangements under SABA most clearly resemble those of the Canada pension plan. Both are funded on a modified pay-go basis; each is contributory, with the employee and the employer providing matching amounts; and in both instances it was known at the inception that initial contribution rates were inadequate and eventually would have to be increased. Both are monitored regularly and each is financially healthy. Last but not least, the stability and ongoing nature of each is ensured through the participation of the government.

While this comparison of CPP and SABA may be useful for gauging the stability of the plan's design, it does not address

directly the commission's proposal for post-retirement adjustments to public sector employment-related pensions. To do so requires critical examination of objectives and current standards within the pension industry.

No one who has considered the plight of individuals on fixed incomes during what has become a prolonged period of accelerated inflation can deny the need for a mechanism for the maintenance of spending power. Inflation has the potential to destroy in a few short years a lifetime's planning and saving for a secure retirement. Programs designed to address these needs must be critically examined with regard to the cost as well as to adequacy.

The commission's own analysis concluded that programs designed to provide minimally adequate levels of retirement income should be indexed to the consumer price index with periodic adjustments to reflect changes in wage rates. Unfortunately, its treatment of the need for value maintenance of income from other than governmental programs is neither as thorough nor as insightful.

Under the commission's proposal, ad-hoc increases can continue to be funded on an after-the-fact basis while the costs of all planned adjustments must be recognized and pre-funded. This broad-brush assertion that one standard of funding should exist for all planned benefits regardless of the security of forecast, uncertainty of contingency or circumstance of employment does not withstand careful scrutiny. Rejection of SABA because of its failure to comply with this single, subjectively determined funding criterion cannot be justified.

If the SABA approach were to be discarded, what options exist? The technique most frequently employed is the concept of the ad-hoc increase. In the private sector some firms pay ad-hoc adjustments as an ongoing salary. However, most larger firms make a supplementary benefit declaration under an existing plan. In instances where the adjustment benefit results in an unfunded liability the Pension Benefits Act permits either pay-go funding or amortization over a fixed period.

As the need for subsequent adjustment becomes obvious several important questions concerning this technique arise. At what point does the sequence of ad-hoc adjustments become an accepted practice? When is the anticipation of a series of further adjustments created? When can the pensioners afford to spend the increases rather than save for a future that promises to be even more financially restricted?

By comparison, the SABA approach is far more rigorous and disciplined. It is based on regular forecasts and offers the added advantage of providing the pensioners with a measure of financial security. I would underline that statement to you. The other option, and the one endorsed by the commission, is to provide for escalation within the basic plan. If the primary objective of this proposal is to identify, anticipate and fund costs associated with benefits before the fact, certain fundamental questions should be resolved if the proposal is to be evaluated effectively.

Is the pattern of inflation which has emerged in the 1970s and the early 1980s the beginning of a trend or a brief anomaly? More to the point, what is the appropriate inflation assumption for valuing a pension plan? North American plans typically are valued with long-term inflation assumptions in the two to four per cent range, while assumptions in the seven to eight per cent range are not uncommon in Europe.

The question of appropriate inflation assumptions becomes even more important when escalation provisions are included as an integral part of the basic plan. If assumptions are too low the benefits will be paid for after the fact through the amortization of unfunded liabilities; too high and current consumption will be constrained through unrequired forced saving.

Last but not least are the societal considerations that surround the funding of post-retirement adjustments. Who should pay for these increases: the current worker, who has some ability to counteract the effect of inflation, or the retired individual on a fixed income, who is not only victimized by inflation but also unable to protect himself from it? To what degree should today's workers or pensioners sacrifice current consumption to protect themselves against the prospect of future inflation? If pensions are indeed deferred income should not the employer, who retains custody of these earnings, be charged with the responsibility of maintaining their value?

The SABA approach is a compromise between two funding extremes. I think this next section is very critical. It permits flexibility in dealing with an uncertain economic element, an element that as yet has not a proven historic permanance. In the private sector, employers deal with this uncertainty on an ad-hoc basis. By contrast, SABA is a regular approach based on forecasts of inflationary trends. Its flexible nature and ongoing monitoring permit plan modification as experience and updated forecasts indicate. Incorporating full indexing within a basic plan would require an a priori judgement of a cost element that is difficult to quantify.

In the private sector costs normally are assumed entirely by the sponsor, whereas with SABA the employees pay half. The federation believes SABA to be a fair and responsible mechanism which permits the plan sponsor and the participants to deal with inflation-related costs as they emerge.

Cost control: The second of the commission's principles for public sector pensions, that public sector plans should not lead the private sector plans in benefit provision but should be designed to achieve an overall parity with private sector plans, when considered in conjunction with the third principle, that effective cost control of public sector pensions must be implemented and maintained, implies not only that public sector benefits are superior to those available in the private sector but also that the costs associated with public sector plans are unchecked.

The evidence the commission is able to assemble to support these positions is less than convincing. That recommendation 128,

which begins with the words: "The government of Ontario should seek to achieve parity with the private sector in total compensation of its employees," is based more on emotion than evidence becomes obvious when considered in the light of the statement on page 146 of volume six of the report to the effect that "Whether the government is leading the private sector in total compensation is beyond the competence of this commission to assess."

10:30 a.m.

The critical questions in assessing public sector pensions relate to the assessment of needs, plan design and assignment of costs. The federation believes that the employment-related pension plans should be designed so that in conjunction with OAS and CPP full replacement of available income is provided for full-service teachers and that this income is protected against inflation. With some amendments the Teachers' Superannuation Act in conjunction with SABA provisions is capable of providing retired teachers with this kind of benefit. A contribution rate of seven per cent deducted from gross salary is tangible evidence of the degree of the teaching profession's commitment to this program.

In terms of employer costs, the 1978 valuation of the teachers' superannuation fund estimated entry age normal costs at 12.7 per cent income. With a teacher contribution rate of six per cent to the basic plan, long-term employer costs of 6.7 per cent are hardly out of line with private sector costs.

While the federation has some sympathy for the stated intent of the commission's recommendations to assign a control function for public sector pension plans to the Management Board it is unconvinced that the Ministry of Treasury and Economics is not fulfilling already many of the functions described. Government is not a victim without defence; it presumably is aware of the cost implications of its actions.

Diversification: The Ontario Teachers' Federation concurs in the commission's recommendations that the assets of public sector funds should be diversified. The federation presently is carrying on a series of discussions with representatives from the Ministry of Treasury and Economics and the Ministry of Education concerning the possibility of diversifying the investment of the assets of the TSF. To date, the technical feasibility of diversification has been investigated and no major impediments discovered. The federation is hopeful that it will be able to develop with the government a mutually satisfactory arrangement for diversifying the fund's assets.

I would further like to read into the record at this point something that is not in the brief. There is some indication that the government may withdraw from diversification discussions if teachers do not agree to transfer the sponsorship of the plan to local school boards. OTF continues to advocate that the province as sponsor should diversify the assets of the teachers' superannuation fund. The federation believes the potential for increased returns to be a compelling reason for proceeding with plans to diversify the investment of the assets of the fund.

Collective bargaining: In addition to discussions on diversification federation representatives currently are meeting with the government representatives from the Ministry of Treasury and Economics and the Ministry of Education to attempt to reach agreement on a package of improved benefits and administrative amendments. OTF believes that the commission's stated preferences, with regard both to collective bargaining of plan changes and to recognition of costs involved, are reflected in that process.

Compliance with the Pension Benefits Act: OTF supports the commission's position that all public sector employment pension plans should comply with the PBA, and, in fact, the federation believes that the need to restrict payments on the 1966 initial unfunded liability of the TSF to interest alone no longer exists and the regulation under the Pension Benefits Act should be amended to require its amortization.

Matching contributions: OTF believes that the government should pay contributions as required by valuation results and that the existing rule, the matching principle, should be adhered to for normal contributions.

Actuarial valuations: The federation believes the commission's recommendations that would help standardize actuarial valuation techniques and define solvency requirements more clearly to be generally sound and desirable. However, it has difficulty reconciling the commission's position that public sector funds with assets of $150 million or more should be required to file actuarial valuations annually with the Pension Commission of Ontario within nine months of the fiscal year end with the second recommendation that these same funds should only be required to update plan-specific decremental assumptions triennially. OTF believes that unless both economic and decremental assumptions are reviewed and altered, when necessary, with each valuation, the more frequent valuations proposed by the commission will be of limited worth. An additional concern is that the nine-month time restriction would necessitate a major alteration of current TSF administrative and valuation practices.

An increasingly important feature of many public sector plans is portability, both within the Canadian public sector and, to a measure, within the private sector, provided through reciprocal transfer agreements. OTF believes the commission's suggested criterion that such transfer agreements should not result in either a gain or a loss for either the individual or the plan to be a reasonable one.

That ends the section we started out with on public sector employment-related pension plans, and the last matter, of course, was reciprocal transfer agreements. We'd like to approach other employment-related pension issues.

Survivors' benefits: The Ontario Teachers' Federation endorses the commission's conclusion that a single retired individual needs more than one half of the amount needed by a married couple to maintain the same relative standard of living. The federation believes that provisions for survivor benefits, both

in government programs and in employment-related pensions, should be amended to reflect this need.

Vesting: The federation believes that every effort must be made to preserve and protect the pension entitlements of each employee regardless of career pattern. While reciprocal agreements in industry-wide plans provide a limited protection for some public sector employees, earlier vesting would prevent the loss of pension credits for many mobile employees.

The commission's recommendation that vesting criteria be reduced to five or 10 years of service, depending on whether PURS is adopted, is at best a compromise. In its submission to the commission, OTF advocated that pensions be vested immediately upon employment. The commission has not raised any issues which would cause the federation to alter its position, particularly when the plan is contributory.

Locking-in and rights on termination: The commission correctly points out that when lock-in occurs simultaneously with vesting, a young mobile employee in contributory plans can be disadvantaged in that his contributions alone will more than pay for his vested benefit. OTF believes that lock-in should not be permitted to occur before an individual has attained the age of 45 years and has at least 10 years' credit in the plan.

The federation endorses the commission's position that, when an individual terminates employment after vesting in a contributory defined benefit plan, the accrued benefits should be valued under the direction of the Pension Commission of Ontario to ascertain the cost of the benefit. This cost should then be allocated one half to the employee and one half to the employer.

The employee's accumulated contributions, with interest calculated at one per cent below the annualized rate paid by Canadian chartered banks and nonchequing accounts compounded annually, should be applied against one half the cost of a deferred life annuity, and any excess refunded to the employee. The balance of the cost should be borne by the employer for the provision of a deferred life annuity at normal retirement age or criterion under the plan.

Death before retirement: OTF supports the commission's recomendations for provision to apply in the event of a plan participant's death after vesting and before retirement. You will note we have listed the three of four recommendations, or three parts of a four part recommendation of the commission with which we agree. I do not intend to read that for you because obviously you have that before you. But I would point out that only three of the four parts are listed in our brief.

Death after retirement: The federation concurs with the commission that all plans should provide as the normal form of pension benefit under the plan, a joint and last survivor annuity with a choice of the percentage level for the survivor's benefit of not less than 60 per cent and not more than 100 per cent of the original pension benefit. However, OTF is of the opinion that a

survivor's benefit of at least 60 per cent should be available without actuarial reduction of the basic benefit.

Integration: OTF agrees with the commission that the Pension Benefits Act should be amended to prevent employment-related plans from reaping windfall profits, to the detriment of the plan participants, from changes to the old age supplement and the Canada pension plan.

Disclosure: The federation supports the principle, enunciated in the commission's recommendations on disclosure, that no information about an employment pension plan or its operation which is necessary for individual assessment should be unreasonably withheld from any member of the plan, active, retired or terminated, or his or her beneficiary, or from any employee who is eligible to join the plan.

Audit: OTF believes the commission's recommendations for amendments to the PBA and its regulation concerning requirements for filing audits and assignment of authority to require audits to be reasonable.

Pension Commission of Ontario: The federation supports the expansion of the pension commission's role to that of both a regulatory body and a body designed to inform and assist individuals in enforcing their rights to pension benefits in employment pension plans.

Representation of plan members: The federation endorses the principle that the PBA be amended to require, for contributory pension plans, representation of the active members of the plan on the body directing the affairs of the pension plan. OTF believes that the level of representation should be determined to the mutual satisfaction of the sponsor and the plan participants.

10:40 a.m.

Section E--Potential relationship of a mandatory plan to the teachers' superannuation fund: Of the suggestions contained in the royal commission's report, perhaps the most controversial is the advocacy of a mandatory money purchase plan. OTF will not comment on the merits or shortcomings of the PURS proposal or of the most frequently discussed alternative, an expanded CPP, except with regard to the potential relationship with existing employment plans.

The federation is of the opinion that a solution to the problem of coverage beyond that currently provided by OAS and CPP for individuals who are not members of employment plans should not be achieved to the detriment of existing employment plans. OTF is opposed to the commission's position that, should PURS be adopted, compulsory participation as a condition of employment and lock-in of contributions should be abandoned for contributory employment plans.

In addition, the federation believes that, should PURS be adopted, employee groups such as teachers, whose pension needs are met through contributory employment plans, should be permitted to

opt out. OTF particularly objects to incorporating an exact replica of PURS in an existing plan as a precondition to exercising this option.

Equality in the work place: The federation believes that every effort must be made to remove anomalies from vehicles for the provision of post-retirement income which select against parents in general and women in particular. Two of the commission's proposals address these concerns directly. OTF supports the recommendations that the Ontario government approve the child rearing drop-out provision for the Canada pension plan. In addition, the Pension Benefits Act should be amended to require all employment pension plans to expand eligibility to part-time employees with durable employment relationships.

In conclusion, I want to remake two points, draw your attention to the two points and make a third. I did draw your attention to what we have said at the top of page two in regard to pension adequacy. We really believe that is a significant statement in so far as the OTF is concerned in connection with what commission did or did not say.

Mr. Williams: What page is that?

Mr. Meek: Page two at the top, beginning, "OTF believes that for individuals with incomes approaching..." and it ends up with "the adequacy level of available income should be full replacement."

We also would like to draw your attention particularly to our statements on pages five and six which relate to the Superannuation Adjustment Benefits Act and particularly the paragraph in the middle of the page starting out, "By comparison, the SABA approach is far more rigorous..." I would also draw your attention to the last couple of paragraphs on page six where we do make some comparisons and suggest that SABA is some kind of a compromise approach between two polar extreme situations and to end up by saying that historical and current design of our final earnings plan, the TSF, and the SABA plan meet the needs of teachers of this province and other than some much needed improvements in these basic plans, we do not favour any change in them.

Mr. Chairman, we are quite prepared to answer questions and I am going to enlist the assistance of colleagues on my left and my right.

Mr. Chairman: Thanks very much, Mr. Meek, for that presentation. Are there questions from the committee? Mr. Williams.

Mr. Williams: I did not get a chance because you were proceeding through your brief, but you emphasize the point in "Death before retirement." You commented on three, but not the fourth position taken by the commission. I have not had an opportunity to go back to the report here to pick out the one that you did not deal with and if not, why not.

Mr. Aylsworth: The report recommends immediate vesting. The fourth recommendation deals with the eventuality that the

individual is not vested at the time of death. We advocate immediate vesting so we did not feel that it was appropriate to include the fourth part, what happens if the individual dies before vesting so that is the one and it is recommendation 53, I believe.

Mr. Chairman: Any further questions, Mr. Williams?

Mr. Williams: Go ahead, Mr. Chairman. I will come back. I do have one.

Mr. Cousens: I was looking for the feelings of the Ontario Teachers' Federation on the expansion of the CPP. Was there a specific recommendation you had on that?

Mr. Meek: There is not. The only place where we directly come close to addressing that is on page 12 in section E where we lay out some parameters.

Mr. Cousens: Could you have your people elaborate on what your thinking would be as to that option, should PURS not be pursued, or other options, about our trying to get the federal government to do something with expanding CPP benefits.

Mr. Meek: We will ask Mr. Aylsworth to make a few comments.

Mr. Aylsworth: Mr. Cousens, it is very difficult to react to a nonproposal. We do not know what form that kind of proposal would take and we would be quite prepared to respond to a definite proposal.

Mr. Cousens: You have not thought about that sort of thing. It is something our committee has heard and it is one of the options that people do present for consideration.

Mr. Aylsworth: It would depend on funding arrangements. It would depend on a variety of considerations. It would depend on the relationship with the teachers' superannuation fund, whether the increased portion of it, if it were to be expanded, would be stacked or whether it would be integrated. There are a variety of considerations. Until you see a complete proposal, it is very difficult.

Mr. Meek: I think the statement in the second paragraph, "The federation is of the opinion that a solution to the problem of coverage beyond that currently provided by OAS and CPP for individual members of an employment plan should not be achieved to the detriment of existing employment plans," may be the general direction we might go but I think until we know what is really clearly before us, it is rather difficult to respond. We certainly do not want to see our own plan eroded in this respect.

Mr. Gillies: In your section on the continuation of the SABA on pages three to six of your brief, I wonder if you could just for the benefit of myself and probably some others on the committee briefly outline what the precise mechanism is for the issuing of the adjustments to your plan? Is it tied directly to the

rate of inflation? Is it set by legislation? I have to confess, I am not aware of the particular mechanism.

Mr. Meek: I will ask David to be specific about that. There is a little written on page 14 of our brief which also may be helpful.

Mr. Aylsworth: It is the contributory plan, one per cent from each, the employer and the employee. The benefit is indexed to CPI up to eight per cent with a rollover if the consumer price index goes beyond that in any one year. Those rollovers are cumulative up to eight per cent.

Mr. Gillies: In the royal commission report, and I am sure you have seen in our interim report in the fall, we have recommended that the industry pursue the concept of granting adjustments based on the excess interest principle. I wonder if you have had a chance to look at that. I cannot imagine for a minute that you would want to trade your plan under SABA for an excess interest approach but I did wonder if you had had a chance to look at that and if you had any comments on it.

Mr. Meek: We certainly have thought about it and I will ask David again to respond on that.

Mr. Aylsworth: We regard the excess interest as an interesting concept. I will make one comment before I expand upon it. The dollars cannot be used twice. You cannot spend them to approve benefits or to reduce employer costs and then use them to fund adjustments after retirement. I think you can make a convincing argument that the earnings on the assets of pensioners beyond that which is required to fund a benefit should accrue to the pensioner, those earnings on the pensioner's assets, those assets that can be directly ascribed to the pensioner. But beyond that the answers are less obvious.

On the actuarial side, I think there are a number of questions we would like answers to. To what degree should inflation be incorporated in principal economic assumptions? Alternatively, should inflation be treated as an anomaly or an anticipated event? With funds like the TSF and the public service superannuation fund have to be valued at market rates?

10:50 a.m.

What implications are there for actuarial techniques? Could assets be written up any longer? Would pensions have to be segregated? Would those portions of pension assets that accrued to the pensioner have to be segregated from those that belong to the plan members?

On the benefit side, would each year's excess interest be used to purchase a life annuity for the pensioner? If so, at what rates, or would it be used to fund a one time only benefit, or would it be some combination of those two?

On the investment side, what are the implications for the

placement of assets? Would the investment have to be restricted to treasury bills, commercial paper, and short-term bonds because of the need for rates that move with inflation, highly liquid assets and assets that are not subject to gains and losses?

It is very difficult to respond to a broad-brush proposal like an excess-interest concept without providing the answers to some of those questions, and we chose not to comment.

Mr. Gillies: Actually, I would be very interested to hear the attempted answers to some of those questions. Might the committee ask the authors of the royal commission if they can shed any light on some of the questions that have been raised there?

Just beyond that, I wanted to ask for some clarification on the matter you raised on page seven of your brief, that is not included in the brief actually, which is the question of diversification.

You mentioned some ongoing discussions, I assume with the Ministry of Education, as to the future of your plan and whether it would continue to reside with the province, or move to the county boards. This has implications for diversification of the fund. Could you just expand on that?

Mr. Meek: I will begin to discuss that. It was some 14 or 15 months ago that discussions were established between representatives of Treasury and the Ministry of Education to discuss a number of things. Some of them were changes to the act, such as improved benefits, administration matters, and so on. The second major matter was diversification, which certainly was mentioned in our 1978 brief to the royal commission.

There was a subgroup established and there has been a series of studies done internally by that group, and we have come out with the statement that is here. Essentially, there is nothing that stands in the way, technically, of this occurring. In the discussions it became clear that the government wanted to discuss the issue of sponsorship, as it relates to diversification. They did suggest that the route they would like to go if we got into diversification was to move the sponsorship someplace else, and the suggestion was to school boards. The exact mechanism was not discussed.

We pointed out very clearly to the representatives of the government that we are not prepared to sacrifice the sponsorship of the plan at the present time. We are quite satisfied with the province of Ontario being the sponsor, and even under diversification, we do not see any real reason for that to be changed. That is where we are with those discussions. The government representatives did make a proposal to us and we told them what we continue to want to have.

I do not know if David or Terry would want to add to that.

Mr. Aylsworth: If I understood your question correctly, Mr. Gillies, it was, "Is there a relationship between the questions of diversification and sponsorship?"

Mr. Gillies: I think that becomes more apparent.

Mr. Aylsworth: Our answer is no. It appears that the government's answer may be yes, but I cannot presume to answer for them.

Mr. Gillies: Would your position be based more on the fact that you are happy with the status quo, in terms of the plan, or do you see some distinct disadvantages should the plan move to reside with the boards of education?

Mr. Aylsworth: There are a couple of aspects to that. The constitution provides that education is fundamentally a provincial concern. Although it is administered locally, and the government has decided that it is in the best interest of education to have it administered locally, the government cannot divest themselves of that primary responsibility in the constitution.

The government is also the employer, as is the board, in this case. On the question of whether or not local boards of education might be the appropriate sponsors for a plan, we have not seen any proposal for the devolution of sponsorship. We have just said that we had heard the government say they would like to see it happen. We have no concept of what they had in mind.

Mr. Gillies: Thank you, Mr. Chairman.

Mr. Chairman: I might point out, Mr. Gillies, that the excess interest concept was recommended by this committee, as you know, and not sponsored by the royal commission. The royal commission, on the contrary, recommended an inflation tax credit, if you will recall. Anyway, I will not develop that further.

Mr. Mackenzie, you had a question.

Mr. Mackenzie: Yes. If this was covered, I apologize for being a little late. You run into emergencies in your riding every once in a while. I am a little disappointed in the tail end that I came in on and your comments with regard to either PURS or CPP. Reading your brief through again, I get the impression that in terms of what we have to deal with--which is the adequacy generally of pensions and how the hell we are going to handle them in Ontario given the tremendous number of people who have to look for some form of supplement, you have really copped out. Over 54 per cent of all of those retired people have to look for some form of supplement, but really you have copped out.

What you are saying to me is that there are certain things we like in the commission's reports, others we question, and maybe some we like more than others. You are saying we are interested in our own plan, when what we have obviously got to face is do we buy a PURS proposal--which I do not think we will. You seem to come down a little hard against that in your brief, but say absolutely nothing that would indicate whether you think it makes any sense or not to really take a look at expanding OAS or CPP, because that is the problem a lot of people have. They are not in as good shape as you are or I am in terms of a pension plan in this province. I am

just a little surprised that you seem to have copped out of any really strong comments on it.

I noticed on page four--I was looking through it quickly here--that you do seem to point out the similarities to your own plan and the Canada pension plan, in structure and so on, but it falls far short of any kind of comments or lead that we might have from a group such as yours, which I think has some status in the community.

Mr. Meek: I would ask Mr. Aylsworth to respond to that. Terry Mangan, on my left, was pointing out that in our original brief to the royal commission you will notice the recommendations on page 15. Numbers seven, or probably eight to 10, may tend to address a little bit of that, so I just draw your attention to those. David, you may want to comment further.

Mr. Aylsworth: Mr. Mackenzie, in planning the report for the committee today, we were faced with the reality of the report of the royal commission which covered a great number of issues, not just whether we should have CPP or whether PURS would be preferable, but a wide variety of issues, some of them dealing specifically with the teachers' superannuation fund and the superannuation adjustment benefits fund. We could not answer all of the questions when responding to that kind of report. We would have had to have written another report, so we restricted ourselves to those issues that most immediately affected us.

With regard to the solution for the 54 per cent who are not covered by employment-related pensions, what we said on that, sir, was that we do not believe that the solution should be found for those individuals at the expense of the existing employment-related pensions. Yes. I agree with you. Something has to be done. I think that teachers with their employment-related plans would probably, to some extent, be aside from the principal thrust of whatever happens.

Mr. Mackenzie: I guess because of your organization or because of the fact that you are dealing with students and the fact that we have certainly got a major income problem, I was just looking for some lead. Because the real argument we are going to have on this committee--and I do not think too many will agree with me--is how we address the issue of public versus private pensions and supplementing existing pensions and the adequacy of them. That means more than anything else, if there is an argument in this committee, it is going to be over what we do in terms of a PURS-type approach or a CPP or OAS beefed-up approach and how the hell it is funded.

11 a.m.

I think everything else, given the recommendations we have made in terms of the private pension area, pales to almost insignificance in the discussions that we will have in this committee. I guess that is why I am looking for some direction from groups that I think have got some responsibilities. Most of them have commented in much more detail on the broader issue than certainly the OTF has.

Mr. Meek: I guess the only thing I could say is I haven't heard what the other groups have had to say and maybe they had more good reason to comment from their own self interest, if you want to call it that. As I said earlier, we feel we have a plan at the present time which generally meets the need of teachers in its general concepts. The point is I guess that we didn't make any strong recommendations as to what should be done for other groups of people but it is pretty clear we certainly don't want our own plan eroded in the process.

The teachers of this province and the government have seen fit for historic reasons since 1917 to provide in some way, shape or form, for teachers in this province going on pension. We wouldn't want to see that kind of plan and that history upset at this point, knowing full well there are real needs in parts of society, and I recognize that, but we just don't want to see our own upset in the process.

Mr. Haggerty: On page 12 under E, "Potential relationship of a mandatory plan to the teachers' superannuation fund," you say in the second paragraph: "The federation is of the opinion that a solution to the problem of coverage, beyond that currently provided by OAS and CPP, for individuals who are not members of employment plans, should not be achieved to the detriment of existing employment plans."

If PURS was to be adopted by the government and implemented, what detriment would there be to your pension plan?

Mr. Aylsworth: The specific recommendations of the royal commission, at least as we read the, would require the duplication of the PURS mechanism within existing employment-related plans if the plan was to be permitted. We believe that criterion is far too stringent and we can't subscribe to it.

Mr. Haggerty: Would there be a loss in pension benefits to members of your association if they went into the PURS program?

Mr. Aylsworth: It would require a radical redesign of just about every employment-related pension plan that exists in this province, if at least my literal reading of the recommendation were put into force.

Mr. Haggerty: But would there be a loss in the long run if the program was implemented, say, along with the teachers' superannuation fund? Would there be a loss in pension benefits to those persons on retirement if we went into such a program?

Mr. Aylsworth: Are you talking about--

Mr. Haggerty: I am just using the words you used--I believe "detriment" is mentioned there--that there may be something there causing some difficulties with your present plan. Would there be a loss of--

Mr. Aylsworth: It is entirely possible, if for example there were requirements--it is a very difficult question to respond

to, for starters, because we haven't got particulars of a PURS plan and the integration formula for the two or the requirements for existing plans to conform with however PURS fits together with the existing plans.

If there were certain specific requirements concerning cash reserves, concerning the transportability or the portability of those things, there could be increased cost pension plans.

Mr. Haggerty: But you go on to say that you would prefer to opt out of it if the PURS program is implemented.

Mr. Aylsworth: We are saying that we have taken a look at how a defined benefit plan suits the population of teachers. We have taken a look at withdrawal rates for teachers beyond the initial two or three years of involvement in the teaching profession and we believe that the teacher superannuation plan and the superannuation adjustment benefits plan well suit the needs of teachers. We say to you that we do not believe the question of coverage for 54 per cent of the population should be achieved to the detriment of a group that is already well served.

Mr. Haggerty: On quality in the work place, your brief suggests that the Pensions Benefit Act should be amended to require all employment pension plans to expand eligibility to part-time employees with durable employment relationships. Do supply teachers now come under your pension plan?

Mr. Aylsworth: Yes, sir.

Mr. Haggerty: What is the criteria for them to come under this pension plan?

Mr. Aylsworth: They receive salary. They fall within the meaning of the act.

Mr. Haggerty: Is there any number of hours a year that they would have to put in?

Mr. Aylsworth: No.

Mr. Haggerty: They could work one day or two days a year, and they are eligible for the pension plan?

Mr. Aylesworth: They will not be vested at that point, but they are participants in the pension plan from day one.

Mr. Brandt: I wonder if Mr. Bentley might make make comment on page 12E of the report, the relationship of PURS to other plans. I certainly did not get the impression that PURS was quite as demanding in terms of the other plans as what is outlined here. From the comments that presenters have made, one quote is that the other plans would have to be an exact duplicate of PURS in order for them to be given the opting-out privilege.

Mr. Bentley: Or they would have to have a provision in the plan. This is something I mentioned to you before. If you are

going to permit an opting out, as I understand the PURS program you would have to have at least the basic provisions of PURS built into any private plan. They can build supplements in addition to that, but at least for that purpose, the transferability under the proposals of PURS, all the other things, I think the plan would have to have some equivalent of the PURS program built into it.

It can provide for anything more, but in order to accomplish what PURS seems to be after--universality, transferability, immediate vesting, all of these kinds of things--I think that every pension plan would have to accommodate the PURS program. I cannot see any other way it could be done, if you are going to permit opting out. Otherwise, you are going to have to establish mechanisms for the variety of plans that you would permit to opt out without that provision.

It would demand again, if you are going to allow for transferability, you are going to have to come down to immediate vesting proposed by PURS for the level of the benefits provided under the PURS program. That would be a translation within a final pay plan or a career average plan or a flat benefit plan. It would require a determination of that amount which would be eligible under the PURS program to be transferred. The mechanics of it are rather difficult, but this is the way I understand the PURS program and the way I would see it work--

Mr. Brandt: It is highly unlikely, however, that with the introduction of PURS, if we did decide to go in that direction, that any plan would be watered down as a result of the introduction of that particular plan. Would that not be correct?

Mr. Bentley: I would suggest that the plans of smaller employers, which are money purchase arrangements in the main now or career average plans, some of them would probably tend to disappear when PURS came in, because basically you could see an employer saying, "What the"--I suppose I should not use that word. "What the hell, I have got to do this one and I have got a little plan over here for my employees. I will discard this one and carry on with PURS." There would be a disappearance of some plans.

Mr. Brandt: That would be in the form of an enrichment; would it not, in all probability?

Mr. Bentley: It could or it could not, depending on the kind of a plan that the small employer may have. With respect to the larger plans, I would not anticipate any change, any loss of any of the larger plans covering larger numbers of employees; I would not anticipate any loss of those, but I would anticipate in the plans that have two to five to possibly 10 employees covered currently under a fully insured contract or whatever the thing happens to be, that they would tend to disappear and be replaced by PURS.

It is a matter that would be very hard to gauge, because you can have your very poor small plans and your very good small plans. If a very good small plan disappears and PURS remains, then you have got, to the detriment of those employees--

11:10 a.m.

Mr. Brandt: With respect to the smaller plans, would it not be fair to say--and you have had a great deal of experience in dealing with a lot of them--that generally speaking those plans are minimal plans, though, as opposed to some of the larger employers, with the more organized groups, such as the teachers?

Mr. Bentley: I suppose you could make that general statement. Where there would be a career average plan, yes, I suppose that would be a reasonable statement. If you have a small plan, and you have a number of small plans that will have a relationship in their benefit structure to final salaries of some kind, where you have that, where you have continual updating of career average plans, and where you have a fairly good money purchase arrangement, such as five-and-five contribution level, under an existing plan now, whether it is fully insured or however it is handled, if you lose that, you are losing something that is better than a two-and-two, and you might lose some of that, because of the double administration. It is a danger to me, that is all.

Mr. Aylsworth: Mr. Chairman, I have a question for Mr. Bentley. In the integration of a PURS with a fund like the teachers' superannuation fund, would not the actuaries have to cost the contingency of a PURS transfer, and would not those costs be assigned against the costing of the plan and hence appear on the valuation balance sheet?

Mr. Bentley: In some way, yes, if there is an opting out privilege.

Mr. Aylsworth: Would it not likely result in increased costs?

Mr. Bentley: I doubt like heck if it would, but--

Mr. Aylsworth: Would it result in decreased costs?

Mr. Bentley: I doubt if it would.

Mr. Aylsworth: On to the next topic, Mr. Chairman.

Mr. Chairman: Any questions? Mr. Williams, did you wish to follow up?

Mr. Williams: Just on the Superannuation Adjustment Benefits Act that is a very central part of the presentation by the federation.

I guess it really all revolves around recommendation 116 in the royal commission report, where they talk about the desirability and the affordability of the indexing feature in SABA. I do not know if they are questioning the desirability; it is obviously the affordability that they are concerned about.

They specifically point to the teachers' superannuation fund, and say that the two per cent total contribution rate would have to

increase eventually to about seven per cent of earnings to pay for the promised indexing. I guess this is the area where they feel that it is too rich a scheme to be afforded. That is what I read into the recommendation, and this is what you are taking issue with at this time, that you feel that it is not necessarily so. Is that a fair comment, or could I hear a feedback on that?

Mr. Aylsworth: I would respond in a couple of ways. First of all, inflation is an expensive piece of business from any perspective. In terms of pension costs, in terms of the decrease of spending power on fixed incomes, it has a really insidious effect over a long period; so that in terms of nominal dollars, it is an expensive proposition.

The second comment I would make is that when we went into the SABA approach to funding post-retirement adjustments, we did so with our eyes open. The plan is constructed in a manner that is not dissimilar to the Canada pension plan. When the provinces entered into the Canada pension plan, everyone knew at inception that the contribution rates were not adequate to carry it over the long term. We knew that about SABA. We knew the projections for ultimate costs. I am not sure I would agree with the seven per cent figure although I haven't seen those projections. I have only seen them referred to.

We are quite willing to deal with the question of inflation protection for teachers on an ongoing basis. The one thing that the SABA approach does do for us is to permit us flexibility in dealing with inflation. If inflation abates, then the plan will work quite nicely on the current contribution rates. If it increases, then we have all got problems and it is not just SABA that is in difficulty.

Mr. Meek: I think two points should be made. There is a group from the government and the teachers that review the forecasts two or three times a year; optimistic, pessimistic and realistic. Obviously, there may be a critical point at which injection of additional funds may be required. Part of the consideration of the whole matter is whether one per cent from each side is useful over the long term. If, as David says, inflation disappears, then there is no problem, but if inflation continues, then obviously, we've all got problems.

Mr. Williams: I am not arguing the desirability feature of this. It is obvious that the more enrichment of the plan you can have, the better. But coming back to the affordability concern, I guess that situation is further aggravated by the fact that while you have the eight per cent cap, you have the carryover feature, which again very significantly relates to the cost of the plan. While you may have a couple of years running where you may be well under the eight per cent--or to say it another way, where it may go over and then drop under for a couple of years, you do a catchup by the carryover feature--so it is certainly a costly feature albeit desirable. I guess that aggravates that affordability situation.

Perhaps I could direct a question to Mr. Bentley. It is for this reason, Mr. Bentley, that the commission has suggested that the transfers be made to the individual funds, because I assume that those specific indexing criteria are not contained in those

acts or don't provide as rich a provision in those acts as under SABA. Is that correct?

I don't have the teachers' superannuation fund comparison figures here as they relate to SABA. What is the basic differential there at the moment? Do you know?

Mr. Bentley: Which?

Mr. Williams: We are talking about the transferring over to the teachers' superannuation fund which would directly relate to this delegation. In winding down the SABA, as I understand it, in phasing out that legislation, they would then transfer funds and operate under the teachers' superannuation fund. Am I reading that correctly?

Mr. Bentley: I would have to go back to the report of the royal commission to recall what they were talking about in that area, Mr. Williams.

Mr. Williams: It is a lengthy recommendation but it is essentially talking about winding down and repealing the Superannuation Adjustments Benefit Act which is what the great concern is here this morning.

Mr. Bentley: And replacing it with a tax credit.

Mr. Williams: Pardon?

Mr. Bentley: The net effect is to replace it the inflation tax credit formula.

11:20 a.m.

Mr. Aylsworth: That is not the way I read the recommendation but I could be wrong.

Mr. Williams: It goes on and recommends further, "All funds from the contributions by employees and the government, as employer, should be transferred to several of the individual funds," one of which is the teachers' superannuation fund. "As of December 31, 1981, any unfunded liabilities created by this change should be treated as initial unfunded liabilities and be amortized over 15 years in the respective funds."

Mr. Bentley: I am going to have to study this one.

Mr. Chairman: That is a question directed to Mr. Bentley and maybe we can resolve that at a later time and confine our questions to persons appearing before the committee.

Mr. Williams: All right. In fairness, I will go back to Mr. Meek, because SABA and what it provides is of great concern to your association. Perhaps you have at your fingertips what the loss would be, so to speak, if we reverted to that fund with the rescinding of the SABA. What do you see is lost financially to your contributors to the fund?

Mr. Aylesworth: If SABA were to be rescinded today and the funds transferred from SABA to the teachers' superannuation fund--is that your question?

Mr. Williams: Yes. Right.

Mr. Aylesworth: At the very least, I think it would be an extremely retrograde step. What you are doing is taking some sort of inflation protection from 20,000 plus people out there and telling them that a deal which was established in 1975 is off. So, at the very least, you would have 20,000 extremely agitated pensioners on your front lawn very quickly.

Mr. Bentley: If I read it quickly, it simply means what they are proposing is that the proportion of the SABA fund applicable to the teachers shall be transferred to the teachers.

Mr. Williams: Right.

Mr. Bentley: Then in your actuarial determination year-by-year, you are going to have prefund it and you would have the normal limits of 15 years for whatever structure is built within the teachers' superannuation fund for post retirement increases and they would have to be handled in a normal manner. In other words, the fund comes in, you start with the proportion of the SABA fund, and you have to make a calculation every year.

If the teachers' superannuation fund puts a cap on it, you are going to have to estimate what the cost will be year-by-year of the unfunded liability that is created, and you are going to have to fund it over a period of not more than 15 years. It takes it away from the so-called pay-go situation which exists now. Really it is a modified pay-go, so they are looking to possible additional costs, as I would read it, to the teachers' superannuation fund, particularly if inflation stays fairly high.

Mr. Chairman: Are there any further questions? If not, thank you very much, gentlemen. We appreciate your taking the time to appear before us today. It has been very helpful.

CANADIAN CHAMBER OF COMMERCE

The next delegation is from the Canadian Chamber of Commerce--Mr. Stan Roberts. I wonder, Mr. Roberts, if you could come forward with any numbers of others who you wish to bring with you. The presentation, gentlemen, is numbered exhibit 159, just so the presentation has been duplicated.

You may wish to introduce those with you, Mr. Roberts.

Mr. Roberts: Yes, I am Stan Roberts. I am the president of the Canadian Chamber of Commerce. This is a joint presentation on the part of the Canadian Chamber of Commerce and the Ontario Chamber of Commerce.

On my immediate left is the immediate past chairman of the executive committee of the Canadian Chamber of Commerce, Bill Gunn,

who is, in real life, general manager for public affairs of H. J. Heinz Company. Next to him is Jim Clare, who is vice-chairman of the health and welfare committee of the Canadian Chamber of Commerce, and, in real life, consulting actuary for Fraser Watson Actuaries Limited/Pouliot, Guerard and Clare Inc.

Sid Dolgoy on my right is the chairman of the health and welfare committee of the Canadian Chamber of Commerce. In real life, he is senior economist for the Toronto Dominion Bank. Next to him is Laurence Coward, a member of the health and welfare committee, who is a director of William M. Mercer Limited. At the far right is Warren Crawford, who is an executive councillor of the Ontario Chamber of Commerce and vice-president of the Royal Insurance Company.

In anticipation of all sorts of questions, we have people with all sorts of skills here, not including myself. I am just here to direct traffic. We appreciate this opportunity to appear before the Ontario select committee on pensions. As you know, I am sure, from reading our materials, we are very sympathetic and support many of the recommendations your committee has made and those that have been made by the royal commission appointed by the federal government. Our position was put forward several months ago at the time the federal government held a conference on the Canada pension system, and I am sure you all have a copy of that position. Because you were so kind as to follow the same order in which matters came up so they can be discussed, we are sure you will find this a useful document representing the Canadian chamber's position.

We would like to clarify our position today somewhat on a couple of recommendations made by your select committee, relating particularly to the questions of employee representation and inflation protection. So I will ask Sid Dolgoy to speak first and then I am sure there will be questions in whatever procedure you woud like to follow, Mr. Chairman.

Mr. Dolgoy: What I want to do initially is to express our gratitude for being invited here to present our views. As just indicated, we do support many of the recommendations of both the royal commission and the select committee and applaud the valuable contribution made by both bodies. What I propose to do is briefly to outline the points presented in our submission made last March, as well as the two issues we had raised with respect to your preliminary report. Following this, members of our delegation are prepared to respond to questions. I might add that Mr. Clare and Mr. Coward, both members of the chamber's health and welfare committee, have considerable expertise in the pension field and will be able to deal with specific issues you may raise in the question period.

The chamber represents a wide spectrum of Canadian firms and associations and includes both large and small businesses. We would contend that most Canadians are able and willing to make substantial contributions toward their own income security needs. We believe this fundamental principle should be borne in mind when government deals with social security matters and that the important role played by the private pension industry in the

economy of Canada be recognized and sustained. Minimum basic needs of the work force should be provided for through soundly financed programs of social security, but such programs should be designed to encourage and not compete with private arrangements, nor should they be expanded to restrict the growth of private plans.

11:30 a.m.

We believe the present system of private and public pensions, while capable of improvement, has served Canada well. It has not been a failure and it is not headed toward disaster. Even when allowing for inflation, growth over the past decade in private pension pension plans' contribution income, total benefit payments and the pension fund assets has been impressive. The income security system has expanded as well. Since 1966, the retirement age has been reduced to 65, OAS benefits have risen substantially and the CPP/QPP and GIS have been introduced. All this suggests that drastic change in income security really is not required.

Specific needs should be dealt with by specific actions rather than by wholesale change. Today's needy senior Canadians are a case in point and ought to be a priority concern. Typically this refers to elderly single women carrying the burden of rent payments. Ontario provides special grants to help ease this burden and is to be commended. Such selective measures are needed, as well as the strengthening of private pension plans to make such plans more effective and to improve their equity for the future.

We believe the pension arrangements for homemakers should be improved but a system of voluntary contributions to the CPP/QPP raises a number of difficult questions. The major problem would be the voluntary contributions made would not be made by those most in need, so that the advantages of the plan would go to the wrong group. For the most part, CPP/QPP retirement pension payments are subsidies that pay the most dollars to those who have the largest retirement incomes from other sources and who have the largest incomes while working. Accordingly, the chamber recommends government income security that specifically brings single senior Canadians above designated poverty levels and assistance to help senior Canadians burdened with rent payments, particularly at market rates.

As for the CPP/QPP, the chamber recommends that, given the present form of the plan, benefits should not be expanded. A schedule of contribution increases should be set up to equalize the income and outgo of CPP/QPP for the foreseeable future. In the present form, the CPP/QPP should not be changed to cover homemakers. However, the position of homemakers should be improved through changing the rule on drop-out years and possibly increasing the provision for surviving spouses.

We are all aware that Canada's economic environment has changed considerably since the buoyant decade of the 1960s. There are genuine concerns about maintaining even moderate economic growth at the same time as we try to resolve a number of major economic difficulties, including the persistent problem of inflation. The environment facing individuals, businesses and government demands that we all look closely to costs as well as to

benefits associated with various social programs and expenditures. The chamber maintains that the key to Canada's economic future rests with creating an environment that promotes private sector development affording all individuals an opportunity to participate in and benefit from Canada's economic progress.

In the final analysis, a flourishing economic environment, together with relative price stability and good management of government programs, is a fundamental and essential prerequisite to adequate social security. Unless the system encourages individuals who are able to work to do so, the national income needed to finance the system will not be generated. As well, all social security programs must be considered in the light of the nation's priorities and the country's ability to finance them. Higher levels of taxation to finance social security benefits can impose a costly burden, dampening economic growth and limiting the opportunity for the recipients to become self-supporting.

The chamber believes that while the role of government in Canada with respect to income security is to look after basic needs, employees and employers have the role of providing additional retirement income. Private sector employment pensions are now providing and will provide a substantial and valued portion of the appropriate rewards.

We believe that additional tax incentives should be provided to encourage the voluntary expansion of private sector pension plans or retirement income savings and accumulation plans such as RRSPs. One possible avenue could be a refundable tax credit where the employer or the self-employed person is not currently paying income taxes.

Standardization of design for its own sake should not be the overall goal but rather the achievement of the objectives of Canadians. A choice should remain as to whether basic pension benefits are "money purchase" or are related to salary and/or service. Where pension legislation calls for additional benefits, the cost must be offset in some manner, within given limits for total compensation, since the moneys available for paying total compensation are limited.

The Canadian chamber recognizes that there is a coverage gap with respect to retirement income. However, it is not nearly as large as is sometimes alleged. While approximately 50 per cent of nongovernment workers are members of private pension plans, the remaining noncovered employees include members of group RRSPs, profit-sharing plans and informal arrangements. Some have simply elected not to join company pension plans, some are serving the waiting period prior to meeting eligibility requirements and others may not be regular full-time employees. A large portion of the remainder have such low earnings that the income security benefits are appropriate.

The chamber favours expansion of private plans, but recognizes the limitations of a mandatory plan such as PURS, and a strong opposition among most employers to this approach. We would support refundable tax credits and other forms of tax incentives,

particularly for small businesses and individuals, to encourage the voluntary establishment and extension of pension plans and/or saving accumulation plans.

With respect to portability and vesting, the chamber recommends that legislation require earlier vesting. The chamber hopes it may be uniform across Canada and does not invite undue administrative expense by generating a large number of small annuities. A central registry or central fund under private auspices might be established as necessary to facilitate the operation of the earlier vesting rules. Employees entitled to vested pensions should have the option of transferring the value thereof into locked-in RRSP contracts.

With respect to survivor pensions, many private sector employment pension plans now offer survivor pension options which, at a given cost to the employer, make it possible to pay less to a retired employee and then, after his or her death, pay a continuing pension to a surviving spouse in an appropriate amount. The principle that partners to a marriage share equally in assets generated during the marriage is gaining acceptance. This, together with the financial need of survivors, suggests that a pension should not cease on the death of a retired employee if the spouse is living. The chamber recommends that the normal form of pension should be joint and survivor, that is, one that continues in at least 50 per cent of the amount to the surviving spouse, and where the pension being granted at present is not in this form, that it be permissible for the amount of pension to be actuarially reduced.

There remain the two matters relating to the select committee's preliminary report I would like to mention. The first deals with recommended legislation that would allow employees to choose at least one member of the body directing the affairs of the plan. As our submission indicates, a number of basic questions arise. What body are we dealing with? Its makeup and function may vary from one group to another. Would the employee representative have power to amend the terms of the plan or to direct investment policy? How would he be selected? We are not opposed in principle to employee representation on the pension committee performing administrative functions, but this matter should be dealt with not through legislation, but through agreement between employers and employees, whether through collective bargaining in appropriate instances, or by other means. More information disclosure to employees would effectively reduce the need for such representation on pension boards or committees.

The other matter concerns the issue of inflation protection. The select committee accepts the principle that pensions for retired employees and employees with deferred vested benefits should be augmented to compensate for inflation and suggests the excess interest approach be adopted with a phasing-in period.

The chamber recognizes the harmful effects of high inflation in eroding real incomes over time. Inflation has imposed a substantial burden on virtually all segments of society, including many individuals and businesses. The chamber prefers that additional provision for retirement income be made not through

expansion of the CPP/QPP, but through sound and responsible private sector measures, including savings, RRSPs and employment pension plans. Inflation protection involves extra costs, and it must be recognized that some manner of offset will be needed, since the moneys available for paying total compensation are limited. A phasing-in period will be important. Employers need to know their pension costs are manageable at all times into the future.

Employers' ability to adapt or to absorb such extra costs will be a critical determinant of how much inflation protection can be provided. Many employers cannot afford to pay more, so the extra costs will have to be offset in some way.

11:40 a.m.

Some possibilities: Many employers will only be able to offer inflation protection by reducing the basic pension benefit payable or inflation protection may be offered as an option at retirement through what the royal commission calls a participating annuity with a lower starting pension having some built-in inflation protection. Another possibility is meeting such costs through increased employee contribution levels. A combination of the foregoing is possible as well.

The principal and interest in excess of the actuarial valuation rate earned on pensioners' reserves should be applied to augment pensions. This principle may be reasonable and it is appropriate for a voluntary system. If inflation protection is required by law, however, costs will have to be considered very carefully, particularly in relation to other cost increases resulting from other legislation changes such as earlier vesting.

To be equitable between employers, we suggest the earned interest rate for the year be based on a hypothetical portfolio of government securities so that an employer can, if he wishes, protect himself from unanticipated costs by investing in these securities. Moreover, this rate should be averaged over three to five years to avoid large fluctuations.

The basic rate to be deducted from the earned rate should not be the valuation rate of the particular plan but should be the same for all and close to the average valuation rate in common usage. The basic rate should not be less than six per cent in line with the select committee's proposal. It could be reduced slowly in future years if inflation remains a problem.

I have mentioned most of the ponts contained in our brief and at this point I think it would be in order for me to yield the floor to any questions you may have. In particular, Mr. Clare and Mr. Coward both have considerable expertise in this field and have played a major role in the preparation of this submission. I believe they will be able to address many of the questions you have to raise.

I would only like to add that it has been our pleasure to make our views known to you and we thank you very much for giving us this opportunity.

Mr. Brandt: In one of your comments you indicated that any employee representation on pension plans you felt should be on a voluntary basis through bargaining or negotiations that took place in the normal course of events.

From our vantage point on this committee, we have seen a number of cases where perhaps the question of disclosure and the actual pension benefits that would accrue to a particular employee are somewhat cloudy. They are unkown or confused as to what their benefits actually are. As a result of that, there was some sympathy for perhaps a legislative thrust in that area to make it mandatory that some employee representation be an absolute requirement.

I can understand where you are coming from and I respect the position you are taking but I wonder, if you get an employer who rather arbitrarily decides he is simply not going to have anyone from the employee group on his pension plan, do you not see a role for government to assist with that problem, the problem being basically a knowledge of what my pension plan as an employee is all about and the kind of input perhaps an employee can have, if you recognize--and I feel that you probably do--the philosophy that we have accepted generally that pensions are a form of deferred income and that they are earned by the employee and, therefore, he should have some input into them? I wonder if you could comment on that.

Mr. Dolgoy: I think we have indicated that we are in favour of increasing the flow of information. It is really a case of looking at the two alternatives and seeing that in one case when you talk about this kind of employee representation you are running the risk of a number of major questions arising with complications that we have outlined in our brief.

I do not think I am in any way suggesting that it ought to remain pat and that employers are not going to make any concessions or adjustments. I do believe that it is in order and that they would be willing, under those circumstances, to make more of that information available. There are so many questions that arise simply from trying to apply universally the idea of employee participation.

Mr. Brandt: We see some real problems with, as an example, national corporations who may have a number of pension plans in a number of different areas and how you might be able to accommodate that kind of problem.

I still feel rather strongly that we have to do something to assist the employee to get a better knowledge of his plan and to assist him as well in participation at the decision-making level, which they are not getting at the moment. I think that causes, in many instances, a lot of hard feelings that could be overcome if there was an improvement in the kind of open dialogue between both groups.

I do not think it will come about, quite frankly, from what I have seen as a result of goodwill on both sides. I think it is going to have to be some form of mandatory legislation or some form of requirement before it happens. I agree with you there are some

serious problems with the mechanics of it. I think we have to take a very close look at that, that we do not legislate something that is impossible to comply with, quite obviously.

I think your position is a stand-pat position, frankly. I have to say that because you are really saying that things will change as a result of this desire to have more information flow. I do not know that is going to happen just by saying that it will.

Mr. Dolgoy: I might add one point. I want to underscore that we are not saying we are against it in principle. I think employee participation can be desirable and acceptable. We are simply suggesting that other than a legislated approach might be possible, feasible and desirable.

Mr. Cureatz: So you mean the industry would volunteer?

Mr. Dolgoy: If you call volunteer in the same manner as you have any kind of discussion or dealings as between, say, the representatives of the employees and the management of a given firm. I do not think it is a case that employers are regarded as holding the upper hand at all times. I think there could be some resolution of any debate or of this problem coming through other than a legislated approach. Perhaps some of the other members--

Mr. Cureatz: As Mr. Brandt said, we have not been too successful.

Mr. Coward: I have two comments. First of all, the employee has something of a remedy. If he gets all the information he is entitled to under the Pension Benefits Act, I think it should satisfy most employees. In obtaining that information, he can get the help of the Pension Commission of Ontario. That is one of the reasons that it exists.

The thing that bothers me most is that half the pension plans have less than 25 employees and there is no body the employee could be represented on unless you elect him to the board of directors of the company. There are a multitude of plans that simply do not have an administrative committee to which I can visualize an employee being elected to get this information.

Mr. Chairman: Is your concern, Mr. Coward, that implicit in the recommendation might be the mandating of a body to administer it. I believe Quebec has gone that route.

Mr. Coward: Yes.

Mr. Chairman: I am not advocating that. I am just trying to plumb your concern in regard to representation. You commented that your information was available and you have the role of the pension commission. Those things may not always be a simple or a convenient route for the ordinary employee. I am just wondering whether you had a concern that went beyond maybe the concept of employee representation. That concern might be the mandating of a body or committee responsible to which another member attached would be an employee.

Mr. Coward: I am suggesting that in a great many companies the only body directing the affairs of the plan is the board of directors of the company. I believe it would be possible to have employee representation in the case of large companies but to apply this down to the very small company seems to me impracticable.

Mr. Clare: The original speaker I think set the stage very nicely in which he said my pension--and if Mr. Coward is not too embarrassed, I was returning to my office a few years ago. Mr. Coward had been the speaker the day before at the Canadian Club and the receptionist at the elevator said, "Oh, Jim Clare, there is something in the paper about pensions, about Mr. Coward." I said, "What did it say?" She said: "I don't know. I don't care. There is one thing I want to know--my pension."

11:50 a.m.

This is already on the legislative books. Take a first example of a plan which has an actuarial evaluation at December 31, 1981. I do not have the Pension Benefits Act in front of me but unless I am mistaken, just about by the end of June of this year, each member of such a plan having had evaluation at that date--yourself, sir, if your plan is to be valued then--each member must have a piece of paper which says, "Mr. Taylor, chairman of the select committee, contributions to date, interest, pension accrued," and this is the thrust which is being supported in principle by the chamber of commerce, of disclosure to the employee.

Where, in a company like Lever Brothers, which has come to the attention of the select committee, the employee participation is working so well and is a leading example in Canada, this has been built up as a process of voluntary trial and error over quite some time. A lot of things have been built up by voluntary trial and error within the private sector over a process of time.

We would like to see things, starting with this information statement now which is obligatory every three years--Mr. Bentley may well have the chapter and verse--that is fine. That is good. That tells each individual what he wants to know. There is access to the basic documents Mr. Coward was talking about.

Then in terms of employee representation, if it had been legislated at the beginning--I have talked to a lot of the people at Lever Brothers one way or another. It is just a private opinion, but I am not quite so sure it would have been such a roaring success if it had been thrust on them rather than having been allowed to work out, not in the way of the company but in the way of the employee.

Mr. Brandt: My concern, if I may expand on the question a little, is if we adopt, as an example, there is a good chance there would be a number of things triggered as a result of the considerations of this committee and the recommendations we end up with.

One of those might well be an excess interest approach. If we adopt that as a principle and a recommendation and some form of

determination with regard to the specifics of what that excess interest approach might amount to, I would think that an employee would want to know more than on a three-year basis exactly what is happening to his or her pension plan.

I suggest that because with the fluctuations in interest rates today, if we get some kind of softening of the inflationary direction we have had in the last while, obviously it is going to go down, but if we get an overheated economy again and the problem starts to come, when we get into the upper levels of double digit inflation, then the excess interest approach is one method of getting at least some form of indexing built into the pension.

There are a lot of employees who have plans that are simply not generating the kind of interest they should well be generating in today's day and age. They have been invested poorly or improperly or badly or for whatever reason. I suggest a lot of employees simply do not know the status of their plan.

As part of the disclosure, I would suggest that a three-year time frame is simply not adequate in a world that is far more complicated, as you gentlemen well know being in the business world, and far more complex than it was back in those simple 1960s.

Mr. Coward: I agree a three-year time period is much too long but the difference between having disclosure at more frequent intervals and having an employee represented on the body that directs the affairs of the plan; I do not know what body you have in mind and I do not know how you choose the employee. I am merely suggesting that if you go ahead with this concept, these two questions need to have careful consideration.

Mr. Cureatz: You cannot help us then.

Mr. Coward: My suggestion would be not to require this for companies of less than a certain size.

Mr. Brandt: That would be one approach that might make some sense. We have done that with other legislation.

Mr. Coward: And to emphasize disclosure at frequent intervals.

Mr. Clare: If you take the two areas the chamber has responded to in particular with a lot of support, your first report of the select committee, these two things hang together because in terms of the disclosure and the problems, if you apply in detail what Mr. Dolgoy has summarized in terms of the excess interest--not being the excess interest of the plan but the excess interest of plausible representative pension fund investments accessible to every plan--then the factor each year for indexing, using that approach, will be the same for every plan. You will not need to worry about fair play, or if the person is or not.

Last year, they had $100 a month and the formula comes out as being four, five, six or seven per cent, or whatever it is. I do not know which year it is or what the level of inflation rate is,

but if the answer is 7.2 per cent for all plans governed by Ontario legislation, then the $100 a month becomes $107.20.

In our own minds as we were developing this in the health and welfare committee, and I thank you gentlemen for putting the connecting link among us, we have approached these as separate matters on their own merits in line with what we see as being important for the chamber. But you have provided the connecting link there; that if you do what the chamber is suggesting is the right thing as regards uniform excess interest, it is going to make it easier for uniform disclosure.

Mr. Brandt: I would like to ask the same question, and perhaps we could put them together, about vesting and also portability. Do you have any problems with regard to those two areas of pension concern being on a mandatory basis, or being legislated; or are you taking the position that they should be totally voluntary in the private sector areas?

Mr. Coward: I think that it is fair to say that the chamber of commerce would accept these matters being put on a legislated, mandatory basis. There is a wide measure of agreement that pension benefits should be amended to provide for earlier vesting and for portability on the lines suggested by the select committee.

Mr. Brandt: I might comment that there are some of us who have attempted, with some difficulty, to defend the private sector of the pension industry in regard to how quickly it is moving towards portability and some form of uniformity of movement of plans and so forth. The private sector is making some steps in that regard; they are moving in that direction, albeit there are members of this committee who do not believe they are moving at all.

However, I do believe that they are moving in that direction, and I think they are probably making an effort to un-complicate a very difficult question. Having said that, perhaps you might--and I say this just by way of suggestion--influence that sector of the private market to move more quickly. Maybe government would not have to respond by way of making these things mandatory if they occurred without our influence.

Mr. Dolgoy: There is, in a way, a demonstration effect which emerges when you see one where there is such an attempt that is operating relatively successfully. This will prove a stimulus to other industries as well. I think I would be speaking for the chamber in saying the chamber would be encouraging a move in this direction.

Mr. Riddell: Just as a supplementary, what would you do to encourage the private sector to expand its own pension plan system? It is understandable that you people believe we should be going the private sector route and that probably you do not like the word "mandatory" any more than we in the committee do, although sometimes it is necessary.

Mr. Brandt: Some of us, anyway.

Mr. Riddell: Well, some of us; right. You like the word "voluntary" and the words "private sector," and to leave it up to them. How would you encourage the private sector to do a better job, realizing that, if we are to believe Statistics Canada, less than half of Canada's total work force is covered by employer-sponsored plans?

Mr. Dolgoy: A certain amount of moral suasion might be in order. Employers, recognizing the alternative is legislated requirement on the part of governments, would certainly opt for making their own moves in this direction.

12 noon

Mr. Riddell: Do you really think they would, without some form of legislation, or is the private sector going to wait until their hand is forced?

Mr. Dolgoy: All too often there tends to be a rather negative attitude towards private sector movements here which really is largely unfounded. If the government indicated that they are providing the opportunity for the private sector to put its money where its mouth is, essentially, I think you would find there would be progress made in that direction.

Mr. Coward: A great many employers are anticipating that there will be legislation, and they don't see any reason for going ahead and amending their plans until they know what will be the government's position. What I would say, emphatically, is there has been a complete turnaround in attitudes of employers over the last 10 years or so to early vesting, portability and to providing that survivor's benefit be the normal form of pension. I think there is a great deal of progress in thinking, but many employers are saying: "Why should we make amendments now, when we will probably be required to make another set of amendments a little later on? Surely to wait for a year or so is the better course."

As for the improvement of plans, I think it is quite evident that they have been improving at a fairly steady rate. The payout of the private pension plans is four times what it was 10 years ago, so somebody is gaining. The cost of living may have somewhat more than doubled but the payout has quadrupled.

Mr. Riddell: The fact is that there is still a lot of employees who don't have a plan of any kind.

Mr. Coward: A lot of those who are not covered do not need to be covered or want to be covered. Some of them, of course, are in group RRSPs or profit sharing, but a lot of them work for very small concerns out in the country, at minimum wage or not much above, and would not thank you for requiring that part of their present pay be set aside for pensions.

I have urged again and again that we have a better survey of this group, but there is no question that there are a great many people who are shop assistants, or are working at the gas station in small towns, and so on, and hundreds of thousands of these

people aren't covered and don't want to be covered. Probably, with our present social security arrangements, they would have sufficient from the state scheme.

Mr. Riddell: I am wondering about those people who were put out of work when the branch plants started to close down during this rather tough period of time that we are going through. This matter came before another committee of this Legislature, and we heard of 55-year-olds being put out of work and finding that they had no pension plan whatsoever and knowing that it was going to be very difficult to get a job. Maybe they didn't want to participate in the pension plan, but maybe they wished that somebody had forced their hand earlier on so that they had something to fall back on.

Mr. Coward: Yes, looking backwards it is easy to make that remark. But on this matter of plant closures and so on, I am afraid there are some people who think that pension plans should do a job they were never designed to do; that is, to act as supplementary unemployment insurance, or to provide that people who are, unfortunately, thrown out at 55, 50 or less, should then be able to rely on the pension plan.

That is a job that pension plan has never tried to tackle. I don't think, financially, it could possibly do that. I am strongly in favour of pension preservation and portability, so that pension rights are not lost. But if a plan is supposed to provide for people at the age of 55, then I think you are giving the system an impossible task.

Mr. Haggerty: There are some plans now, particularly in the automobile industry, and perhaps even in the agricultural sector in the manufacturing of farm implements and so on, that have a built-in plan for pensions at 55--the "30 years and out." I think what Mr. Riddell is getting at is that that pension plan is not sufficient today.

Mr. Coward: That's correct.

Mr. Haggerty: That's where the problem is.

Mr. Mackenzie: I have some difficulty, also, with your argument that there are all kinds of people out there in small operations with limited salary who couldn't care less. I think you are right, but I think it is much more likely because of their of income levels, because I get it in my own constituency which is an industrial one. They just bloody well can't afford to buy an RRSP or to put money into some other form of savings. That is the only reason they couldn't care less about a pension plan. The level of the income against the cost is just too low and they can't afford it.

Mr. Clare: Could we have a few numbers, Mr. Chairman? What you are saying is welcomed by all of us, and while we have to look at everything, we also have to make sure that what we are saying will work with each of your constituents. What we as the chamber are putting forward has got to be in the national interest, or, in the case of the select committee, has got to include the Ontario interest.

The Gains income in 1982, even without any indexing, is over $11,400 for a married couple who are both 65. If you add the Ontario tax grants and the tax credits, and you are up over $12,000 a year with no income tax. Bear in mind that there is no OHIP taxable benefit, and that there are free drugs at age 65 and over; and that is not counting the $2,000 a year public housing subsidy that the senior citizens themselves in Ontario call the "gravy train."

Let us take $12,000 a year for a married couple, all expenses paid, no income taxes at 65. Think of that couple with one wage earner, a shopkeeper, or whichever of your constituents Laurence Coward was talking about, and think about the gross income they would have to have at 64, all in equal purchasing power of loaves of bread and pairs of shoes and everything like that. What you are talking about there, if you are going to pay the OHIP, or if OHIP is a taxable benefit, is something like $15,000 or $16,000 a year, which means at least $7 or $8 an hour.

There are a lot of people in Ontario who are being paid less than $7 or $8 an hour. So, if you come along and you impose PURS or a greater Canada pension plan, which would be taxed at 100 per cent--50 per cent under GIS plus 50 per cent under Gains--you only do one thing--at 64 they are lower, and at 65 they are higher. The only thing you will do is to push them down even further at 64 and to push them up even higher at 65. Perhaps if you talk with your constituents about this, as I have done since I was appointed to the Ontario Advisory Council on Senior Citizens, with field trips and one thing and another, you will find there is a lot of common sense among Ontario people.

You will find that Ontario people, who already are going to be on the gravy train, as the senior citizens call it themselves in many cases--I am talking about married couples now, not single people who are renting; that is a problem which the chamber has identified--that married couples are already going to have a higher standard of living at 65 than they had before with 100 per cent index forever.

Any income that they generate in retirement from savings are going to be taxed 100 per cent. They are not stupid. There is a lot of common sense in Ontario. These people say: "Hang on to what we have got at 64. We are going to better off at 65. We do not want contributions under an employer pension plan, thank you."

I am only talking here of people who are earning $7 or $8 an hour or less and are going to be married couples at 65. But that makes a big dent in your 50 per cent. We have also talked about group RRSPs. There is another dent in your 50 per cent. You can talk about people aged 24 and under and there is another dent in your 50 per cent. It is a problem.

Let us remember the elderly single person that CPP will not touch. Your select committee is after that properly with your Gains recommendation in your first report, but it would be--

Mr. Mackenzie: We had difficulty with some of the members on that, mind you.

Mr. Clare: The chamber brief, which was written in February and emerged in March, is solidly behind your select committee, for the little it is worth, sir, on that. But if the--

Mr. Mackenzie: I am not really sure you are clued in on this, even on the seniors' gravy train. I had a hell of a night last night in my constituency office with three cases that really bugged the hell out of me. I doubt that any of them could really cope with additional payments.

One of them was the chap who took a retirement after 37 years in one of the local plants. He took it two years ago. He thought, yes, he was on the gravy train. He ended up, when he took the retirement, with a $725 pension. His wife is a little older than he is and she was drawing the OAS. They have a total income of about $1,100 right now.

But he has run into some problems. He has run into, for example, a rent increase on his apartment that is $319 a month now, so that is a hell of big chunk off it right off the bat. He ran into a massive heart attack for his wife.

One of the things he was in to see me about, for example, was he had claimed a $500 and some deduction for a wheelchair because she was in the hospital for 14 weeks and when she came out, she was in a wheelchair. He has just got a bill telling him--it is the second one; he ignored the first, and I guess that is his problem--he has to pay $576 plus $6.90 interest back and he has another 15 days--this is from income tax--because he was not qualified for that deduction because she only had the wheelchair for seven months. So he totalled up what the hell he was living on, and he thought he had retired a couple of years ago pretty well off by comparison, and he was in trouble; and could I do anything, including even cutting down on the payback of the bloody $500 they wanted, because he did not have that in cash.

I had another young lady in--

Interjection.

12:10 p.m.

Mr. Mackenzie: The cases do not mean anything. All I am saying is that I am getting a hell of a lot of people who are supposedly on this gravy train, or who have had private pension plans, who thought they were okay two and three years ago, and I am not really sure that you are in touch with what is happening to people out there.

Mr. Clare: If we take that first example, I think I was very careful, sir, to say that, on Laurence Coward's remarks, the chamber brief and in what I said, I was talking about a married couple of 64 whose hourly rate was $7 or $8 or less. From the sound of it, you are putting on the record another case, which is an important one, because, to be in the national interest, the policy has got to fit all individuals; but you are not speaking on the same agenda for the moment. It is important--

Mr. Mackenzie : Well, I am, in that if you have a problem in any overpayments or in any gravy train that you are talking about, surely that is something to do with the tax deal. What we have to do is be able to meet the minimum standards for people, and right now we are not doing it in this province.

Mr. Clare: The chamber is all for minimum standards. This individual, from the sound of it, is in a different category from what I was talking about so far, taking things one at a time, in that the individual apparently was earning more than $7 or $8 an hour. The chamber is saying that for people who earn under $7 or $8 an hour, you have a basic standard to meet. People who have higher than the average wage constitute another problem, and we are taking this in two stages.

I was only talking so far about the people, married couples, earning $7 or $8 an hour or less, and I was saying that they are not stupid in that, already, for those people that I described--and that is fact--it is a big part of the 50 per cent. You are getting into the 50 per cent covered; I was talking about an uncovered 50 per cent. For a lot of those people, their income in retirement goes up, and that is fact, and the chamber wants to put that on the record alongside the 50 per cent coverage gap statement.

We are saying that a lot of those people in that 50 per cent coverage gap, if you put a PURS on them, you will lower them even further at 64 and you will increase the stepup at 65 even further.

Mr. Mackenzie: Of course, I do not believe in the PURS. I think you are going to have to start with the enrichment of the old age supplement, no matter what you do, and then take a look at what you do with Canada pension and where the private plans fit into the picture.

Mr. Clare: There we shake hands, because the chamber--

Mr. Mackenzie: To me, PURS does not make any sense at all.

Mr. Clare: The chamber is saying that before we go talking about things 30, 40, 50 years off in the future, we should be looking at your constituents today, and that we should be looking at OAS maybe, and certainly the guaranteed income supplement and the guaranteed annual income system, and also--and I believe the Metropolitan Toronto Social Planning Council brought this up, and the Canadian Medical Association certainly brought it up when I was with them in August--should you perhaps do in Ontario what Quebec and Alberta do; under the tax credits and tax grants, should you perhaps at least bring renters up to the same level as homeowners, and should you possibly do what Alberta and Quebec do, which is, put them higher?

The chamber is not legislating the way you are, sir. We are not elected by Ontario. We are saying for your consideration--and it is a coincidence that CMA said the same thing and it is a coincidence that the Social Planning Council of Metropolitan Toronto said the same thing. This comes from looking at individual examples, and frankly the chamber says that 50 per cent is a misleading figure.

Mr. Chairman: Any questions?

Mr. Williams: I have some. I just wanted to pursue this matter. That was a supplementary you had, that ran for half an hour.

Mr. Riddell: You keep track of that?

Mr. Williams: Yes.

Mr. Haggerty: Is yours a supplementary?

Mr. Williams: No, it is a new question, the first one since Andy Brandt's; to Mr. Coward, if I might.

Mr. Coward, I heard you saying, on behalf of the chamber, that the chamber is supportive in principle of a form of mandating in the private sector; to let the private sector make the plans available, but an element of mandating would be acceptable.

Mr. Coward: On certain matters.

Mr. Williams: That is right. That is what I was coming to. You mentioned, of course, the vesting and the portability and survivor benefits and things of that nature but of course what you did not touch on was the key element, which has been very much a part of the supplementary questions and so forth; and that is, coverage. That continues to be, I guess, the major concern for those of us who see some advantage to this option of private sector.

The mandatory features are in the provincial universal retirement system. So we don't have to worry about it; the coverage is there. But in the private sector, where they are encouraging us to let them show us what they can do, while you feel that a form of the compulsory element would assist in getting that job done you still don't seem to be directing yourselves to the coverage aspect of it without some element of mandating.

One group that was before us suggested that all employers be compelled to offer plans of some form to employees. Whether they would accept or not would of course be another thing again. That would be the voluntary aspect of it. They wouldn't be compelled to accept the plan, but on the other hand the employer would be compelled to offer it. That's one compromise position that has been put forward short of saying to employers and employees alike that they must engage in some form of plan without at this point setting what the base will be.

I think it's in this area that we have the greatest difficulty in trying to find the appropriate mechanism to ensure that there will be coverage. If it's left with the private sector to develop these plans--and certainly we have had encouragement from the private sector, indicating that they want to co-operate, knowing which way the winds are blowing in this matter.

But is that good enough? Can we sit back and say: "By trial and error we can work it out, given the opportunity, as the private sector, to do what you are looking for"? We're reading between the

lines. I don't know whether we can afford the luxury of that time element and the trial-and-error factor. I think we have to move more quickly and more certainly in the directions we want to go. And how can we achieve that without introducing this element of compulsion in some other areas you want us to try to avoid?

Mr. Coward: We believe that the coverage problem is far less important than it has been made out to be, because if you analyse the uncovered group you will find that a very large proportion of them are covered under other types of plans, or they had the opportunity and elected not to belong to plans, or they are serving the waiting period, or they are workers who are over 65 or under 25, or they have such low earnings that the public system is adequate.

So, first of all, we don't think coverage is the vital point. If you suggest that employers should be required to offer a plan to the employees and if that plan is noncontributory then I suppose all employees would take it because it's something for nothing. So that can't be what you mean. If it is a contributory plan, then, again, it will tend to be taken by those with higher earnings, who can afford the contributions, and the ones who are at the bottom income level will not take it because they can't afford that deduction.

The idea of the mandatory plan seems to me one with a good objective, but it is pretty well unworkable because the pensions produced for a long time, for the first 10 or 20 years, will be very small, as Mr. Clare says. If you have a small pension for someone with low income he loses half of it to the guaranteed income supplement and he loses half to Ontario's guaranteed annual income system, so there's no advantage. The end effect is that this compulsory system would mean that people in Ontario got less Gains from the federal government and that they would have to pay and would be subsidizing other provinces, as I see it.

Therefore, I think there should be some reasonable and modest improvements in the Canada pension plan, not by taking the 25 per cent and making it 50 per cent or anything like that. It's clear to me--and I believe I have the support of the chamber--that the yearly maximum pensionable earnings--that's the ceiling--in the Canada pension plan should be raised to the average industrial wage quickly. It was always intended to be there; it's only that it has fallen behind because of inflation.

12:20 p.m.

Second, we support the drop-out year proposal, which will help mainly widows and women. That, as you know, is one of the worst areas. We would not be opposed to an increase in the survivor benefits in the formula for those benefits which, again, would help some of the lowest-income people.

These are the measures in the Canada pension plan. I have supported an increase in old age security with a tax-back arrangement so that there's no great advantage to people with high incomes. With those things plus the improvements we are talking about in the private system in vesting, portability, survivors' and

inflation protection I believe you have got a very acceptable package.

Mr. Clare: One of the things that perhaps the chamber is unique on--and you've seen more briefs than I have--is the idea of the tax credit. Just to run through that quickly, if you think of an employer just starting up who has no taxable income, if he sets up a pension plan he's throwing away dollars because he's not saving his 25 or 50 per cent corporate tax. But chances are that most or all of the benefit dollars in future years are going to be taxed, so there's a tendency for employers in the first few years of starting a business, when they're short of cash anyway and if they have no taxable profits to offset it with employer pension contributions, not to start a plan.

In the case of an employer who starts business at 35 and who sets up a plan at 55 with all the past service in--and this happens voluntarily, at least a little bit; not enough, but it happens a little bit--what you're seeing is two thirds of a gap, because you see no plan while he's 35, 45 or 54 for all his employees. When the profits start rolling in and he puts in a plan and he has the past service then there's past-service coverage as well as future, so the gap is starting to be picked up at that point. But in the meantime, when Statistics Canada is looking at which employees are covered and which aren't, there are all those early years of an employer's business.

The chamber has a lot of very small groups of employees as members, and it was that reason, I suppose--I don't know whether the select committee has heard this from any other group--that within our own ranks it bubbled up through the committee system that one way of mitigating this was that maybe if he would put in a plan when he was 40 or 45 after five years rather than wait 20, if there was some positive tax credit refund so that if he puts in his contributions he gets back whatever it is--a quarter, a third or a half, something that would be equivalent to his having taxable profits.

That's in our brief, and that's what was in Sid Dolgoy's remarks. The problem with the Canada pension plan trying to cover this, and why the chamber of commerce, to my knowledge, since 1950 have been consistently opposed to earnings-related pensions, is that the subsidies have reversed and are upside-down welfare.

If you look at our brief on page 10, the last two paragraphs, and the top of page 11, I'll walk through some arithmetic. What it says in a nutshell is that in one case if a higher-income person puts in $400 once and gets out a $200 Canada pension plan benefit each year, in two years that person has got his money back; living an expected 17 years, in this example, 17 times $200 back is $3,400, and he has only put in $400. This is at the bottom of page 10 of the brief. So the subsidy to that person, who might well be a housewife in Forest Hill, is $3,000.

At the top of page 11--you see the discrimination in our brief? We have the low-income person even on a separate page from the high-income person on page 10. When we get to St. James Town on page 11 we're saying that in one year the person may put in half

the contribution, $200 in round numbers; he gets out $100 a year, in two years gets the money back and in 17 years gets $1,700. The Forest Hill housewife has a subsidy of $3,000 for the one year contribution; the St. James Town housewife has a subsidy of only $1,500 for one year of contribution.

If that was put out in that kind of chamber of commerce language, whether by the NDP, the Liberals or the Conservatives, I am sure their constituents would say: "Hey, wait a minute! There's something fishy there. You don't do that with family allowances; you don't do that with public housing subsidies. How come you suddenly do that with pensions?"

I think that's why, if this kind of reality, which the chamber has been saying for over 30 years, about an earnings-related pension plan or the nature of the CPP or the US social security, were known, whether it's the Conservatives, Liberals or NDP I think there would be even greater support for your select committee approach and the chamber approach--and we join hands on this--of putting the emphasis, as Laurence Coward said, whether on OAS or GIS or GAINS or on the credit for the renter.

But you know, over 50 per cent of the pensioners in Ontario get nothing out of CPP. And all of the CPP pensions in Ontario right now are $7 or $8 a month. So if you double an $8 a month CPP, sir, with respect, I don't think that's going to bring about nirvana for those particular pensioners. And what the chamber of commerce is trying to do--and, you know, our members are right on the front line of business and commerce--is to say: "Please, could we have some facts? This is the royal commission process. This is the select committee process. It's wonderful. Could we have some facts and could we have some informed decisions?" And by and large, sir, we're right with you.

Mr. Williams: Just one last question, if I might, Mr. Chairman, to Mr. Coward. I was at a pension conference recently, and one of the scholarly gentlemen there, whose name I will not mention, suggested that the pension tide is coming in and we must not act like King Canute. How would you relate that remark to the philosophy being expounded here today by the chamber of commerce, whom you are representing?

Mr. Coward: I think the chamber has recognized that it has to change, and I think the members of the chamber have changed their attitudes to mandating, vesting, portability and survivors' and other issues very considerably. I don't think we're in any way opposed to employee representation or a very full disclosure in principle on these matters. We're saying: "Look at the practical problems." We're not opposed in principle to inflation protection using excess interest. What we are saying is: "For heaven's sake, don't make it retroactive. For heaven's sake, be careful that it's a workable system." And we do not believe that you need immediate mandatory action on this matter.

I personally differ somewhat from the chamber on that particular issue, but I think there's a lot of evidence that the

chamber has changed its position with the changing times. I look at the old briefs and, in fact, the old policy statement, which in effect said that every employee can look after himself perfectly well, that there might be highly exceptional circumstances in which government ought to get involved; then I look at our present position, where we say that the employee contributes and should contribute and is willing to contribute, but we are recognizing that government certainly has an obligation both to provide social security and to supervise the private sector. I hope the evidence is clear that the chamber is not acting like King Canute.

Mr. Riddell: I don't know how, Mr. Chairman, Mr. Gunn would observe that this committee was anything but impartial, because you mentioned Liberals, NDP and Conservatives.

But no, my question to Mr.--

Mr. Chairman: I thought it was Mr. Clare who mentioned that.

Interjection.

Mr. Riddell: Right.

Mr. Chairman: You were speaking of the universal truth, I suppose.

Mr. Riddell: You referred briefly to improvements for the women in this country, and I'm just wondering: Do I take it from your comments, the partial response to Mr. Williams, that you support the recommendation of the Haley commission that Ontario reverse its position and support the federally proposed child-rearing drop-out provision?

Mr. Coward: Tragically, yes.

Mr. Chairman: Further questions?

Thank you very much, gentlemen. It has been very stimulating. We certainly appreciated your coming before us today.

Mr. Roberts: Thank you, Mr. Chairman. You have made some good suggestions and some points very well made that we can take home with us, too, and we will do that. Thank you very much.

Mr. Chairman: We stand adjourned until two o'clock.

The committee recessed at 12:30 p.m.

SELECT COMMITTEE ON PENSIONS

ONTARIO NURSES' ASSOCIATION
ONTARIO HOSPITAL ASSOCIATION

WEDNESDAY, JANUARY 20, 1982

Afternoon sitting

SELECT COMMITTEE ON PENSIONS

CHAIRMAN: Taylor, J. A. (Prince Edward-Lennox PC)
Brandt, A. S. (Sarnia PC)
Cousens, D. (York Centre PC)
Cureatz, S. L.; Deputy Speaker (Durham East PC)
Gillies, P. A. (Brantford PC)
Haggerty, R. (Erie L)
Jones, T. (Mississauga North PC)
Mackenzie, R. W. (Hamilton East NDP)
McClellan, R. A. (Bellwoods NDP)
Riddell, J. K. (Huron-Middlesex L)
Van Horne, R. G. (London North L)

Clerk: Arnott, D.

Researcher: O'Mara, Dr. J., Legislative Research Service

Consultant: Bentley, W., Superintendent of Pensions, Pension Commission of Ontario

Witnesses:
From the Ontario Nurses' Association:
Gribben, A., Chief Executive Officer
Latchman, B., Research Co-ordinator
Phillips, E., President

From the Ontario Hospital Association:
Ingram, H. G., President
Jackson, R. J., Assistant Executive Director, Pension and Group Life Services
McCaw, D. L., Consulting Actuary to OHA; Vice-President, William M. Mercer Ltd.
Robinson, D. C., Assistant Executive Director, Finance
Szymczuk, R. S., Co-ordinator, Legislative Services

LEGISLATURE OF ONTARIO

SELECT COMMITTEE ON PENSIONS

Wednesday, January 20, 1982

The committee resumed at 2:07 p.m. in room No. 151.

ONTARIO NURSES' ASSOCIATION

Mr. Chairman: Gentlemen, we have with us the Ontario Nurses' Association, whose brief has been distributed and entered as exhibit number 158. Miss Ethyllynn Phillips is president.

Miss Phillips, do you wish to introduce your delegation, whoever will be assisting you there?

Miss Phillips: I am Ethyllyn Phillips, president of the Ontario Nurses' Association. To my immediate left is Anne Gribben, our chief executive officer; next to Anne is Bharrat Latchman, who is our research co-ordinator; and to my immediate right is Darcie Beggs, who is our research officer.

Mr. Chairman: We have your brief, and we are in your hands now as to how you wish to cover it.

Miss Phillips: I would like to go through the brief. I have made a summary of the material contained in the brief, and I have elaborated a wee bit on the conclusions. These conclusions are found on pages 16, 17 and 18 of the brief, if you wish to follow along at any point, and then we would be pleased to answer questions from the whole committee at the conclusion of the presentation.

Before I begin, I would like to apologize for the typographical errors. Unfortunately, the little gremlins evaded us when we were proofreading, so they did not get caught then either.

Mr. Chairman: You should not point them out because we probably will not even notice them.

Miss Phillips: That is what I am hoping. I am not going to specify; I will make a general statement covering them and that is it.

Mr. Mackenzie: In my case, it is my own spelling.

Miss Phillips: Good. It makes me feel better. Thank you.

The Ontario Nurses' Association or ONA is a predominantly female organization. To be more specific, 98.5 per cent of our organization are females and of this number 65 per cent are married.

The Ontario Nurses' Association is the certified bargaining agent for more than 32,000 registered and graduate nurses in Ontario. As the voice of these nurses, employed in hospitals, public health units, nursing homes, homes for the aged, the Victorian Order of Nurses, medical clinics and industry, ONA

welcomes the opportunity to present its views to the select committee on pensions.

The membership profile which is found in the brief indicates that, of 32,748 nurses represented, 20,784 are full-time members of the working force and 11,964 are part-time members of the working force. Approximately 62 per cent of these members participate in an employer-sponsored group pension plan, but 38 per cent do not have this opportunity. ONA agrees with the Haley commission report that: "There is at present no system for retirement income provisions...in Canada," and that retirement incomes are and will continue to be inadequate unless improvements are made.

We state that the time for study must end and the time for action and decision-making has arrived. In our presentation, we have focused mainly on the areas of ascertaining the best method to provide an adequate guaranteed income for the elderly; expansion of the Canada pension plan versus the provincial universal retirement system or PURS; the role of employer-sponsored group pension plans; coverage for part-time employees; and those issues that effect mainly women.

We have reached the following conclusion:

1. Pension income should be derived as follows: (i) Guaranteed minimum from old age supplement and CPP; and (ii) Top-up provisions from employer-sponsored group plans and private savings plans.

2. Guaranteed minimum pension to be 75 per cent of the average industrial wage or AIW.

We perceive this as being very necessary in order to allow our senior citizens the opportunity to live their retirement years in dignity and with self-respect. We see the OAS and the CPP making up 75 per cent of the AIW. Any employer-sponsored group pension plan and/or private savings plans could then be used to provide top-up benefits to the guaranteed system. The OAS will pay between 25 to 75 per cent of the AIW, depending upon the level of CPP the retirer receives.

3. An expanded OAS is the most appropriate vehicle for providing an adequate guaranteed income for today's elderly. The increase in OAS is to be phased in simultaneously with the expansion of the CPP.

Expanding the OAS would appear to be appropriate because the OAS is universal and only residency requirements restrict eligibility to receive this income. If more than one half of the elderly population is receiving welfare type supplementation, guaranteed income supplement or GIS, then the OAS payments are already too low.

Also, there is some evidence that a number of OAS recipients who should be receiving GIS are not doing so because a tax return is not being filed. Increasing OAS benefits would avoid many problems which could arise if the GIS were to be expanded.

4. The Canada pension plan should be expanded and improved to a level of benefits equal to 50 per cent of the AIW.

In making this statement, we completely reject the Haley commission's main proposal for a provincial universal retirement system. PURS is a money purchase plan. Like all money purchase plans, the amount of benefit on retirement is questionable. Benefits are based not on pre-retirement earnings but on whatever pension can be purchased at the time of retirement. There is no certainty regarding investment returns and as conditions in the financial market can change considerably, a substantial degree of risk is involved to the individual employee.

If implemented today, PURS would require 47 years to reach maturity and therefore would not meet the needs of the elderly at any time. PURS is not definite as to the amount of income replacement it is intended to provide. It presents problems when workers are not in the paid labour force and is portable only within Ontario.

We believe the focus should be on improving and expanding the CPP as indexing, vesting and portability are not problems with CPP. An administration system currently exists in CPP and universal coverage to all wage earners, regardless of age, length of service of type of employment, would be possible when CPP is combined with OAS. The defined benefit formula provides much more certainty in reference to the level of benefits available at retirement.

5. CPP contributions should be increased immediately. However, the full increase should be phased in gradually. To avoid a sudden impact of a large-scale increase in contribution rates for both the employees and the employer, we would propose a phase-in handled in much the same way as the original CPP was introduced, that is phasing in over a period of time to build to a maximum.

6. The CPP should be partially funded and not solely a pay as you go approach. A fully-funded pension plan providing indexing does not appear to be feasible as it would be far more costly than partial funding and the assets that would have to be invested would exceed the available supply of marketable securities. Partial funding appears to be a better alternative than a strict pay as you go approach and ensures that the cost of CPP benefits will not be totally with the employee and employer, nor future generations.

7. There should be continued indexing on all government pension schemes. This we believe to be essential in order that pensioners not suffer and be able to keep up with the rising cost of inflation.

8. The mechanism for all employer based pension plans to provide inflation protection is the excess interest approach. It is necessary that all employer-based pension plans should offer at minimum some degree of indexation. We wholeheartedly endorse the select committee's recommendation number 17 that: "The Pension Commission of Ontario proceed with the development of legislation utilizing the excess interest approach with a phasing-in period to ease the cost impact."

9. There should be immediate vesting.

10. There should be full portability among all pension plans.

Conclusions nine and 10 are particularly pertinent to nurses because of their high mobility. Nurses often work for several employers during the course of their careers and because of this mobility they tend to lose their pensions. Because pensions are deferred wages, employees have earned pension rights, regardless of the length of time spent working for one employer. These rights should be protected. Therefore, we support substantial improvements in the conditions for preserving pensions for our mobile work force.

We also believe it is important for the employee to have entitlement to employer pension contributions immediately. Under present legislation employees generally do not make any real contributions to the pension plan until the employee is in his or her forties.

11. There should be no legislated mandatory retirement age. Private group pension plans should be able to defer normal retirement earlier than age 60 according to the particular employee group. Normal retirement age specified in nurses' pensions is 65. An active nursing career, however, is constrained by the physical demands and psychological stress caused by work conditions in the health care field. A nurse should be able to retire after 30 years of service with a full pension.

2:20 p.m.

We believe that Canada pension plan and old age supplement benefits should be payable on retirement beginning at age 60. Normal retirement should be at age 60. While earlier retirement is a strong objective for nurses, we recognize that there are many situations where employees wish to work beyond age 65 and are able to do so. This option should remain available.

12. Part-time employees who work on a regular basis should be provided the opportunity to participate in employer pension plans. As you will note from our statistics, nursing requires a large number of part-time employees. Thirty-seven per cent, or 11,900 nurses represented by the Ontario Nurses' Association are part-time employees. These employees are rarely covered by pension plans. We believe that part-time employees who work on a regular basis should be eligible for enrolment in pension plans.

13. Private pension plans should be required to provide a minimum survivors' benefit equal to two thirds of the normal benefits, plus 10 per cent of the benefits for each dependant to a total not exceeding 90 per cent of the benefits. Under the CPP, survivor benefits should be maintained, provided the survivor is dependent and under age 60. At age 60 all persons should be entitled to the guaranteed minimum retirement income.

14. The CPP should institute the child rearing drop-out provisions. We strongly support this and all other amendments which recognize the added responsibility of women to raise and care for a family.

15. There should be general splitting of pension credits in the event of marriage breakdown, unless the parties or the courts determine otherwise, until a guaranteed minimum income system is a reality. This presently exists, but is not well known. Therefore it has apparently not been utilized to the degree possible. We would recommend more information be made available regarding this provision.

16. Full disclosure of all information regarding a pension plan should be made available on request by any plan member, including retirees, or her or his bargaining agent.

17. We recommend mandatory co-management of all pension plans, based on equal representation of the employee and employer, including the CPP. This is based on the view of pension as deferred wages, but it is a fundamental right for employees to have a voice in the administration of their money.

We strongly believe that it is a right of all senior citizens to be able to live with dignity and financial security during their retirement years. Therefore we support a basic guaranteed minimum pension for Canada's elderly.

Mr. Chairman: Thank you.

Mr. Cureatz: I was interested in your emphasis on immediate vesting. My wife has been a nurse in the past, so I can appreciate the need for manoeuvrability with regard to the number of hospitals that she has worked in. But I am looking at it from a different perspective as regards legislation which would promote immediate vesting by, for instance, business employers who would have to adjust to immediate vesting.

I am thinking of the attempt the committee has made in proposing a shorter vesting term and any working down. Could you see a phase-in period as opposed to immediate vesting now? Does that seem acceptable?

Miss Gribben: I would like to speak on that. I think that all through our brief, on many of the aspects we have accepted the need for phasing in. As long as it is recognized that the ultimate goal is to be this, then phase it in. But if by saying to you at this point, well yes, we think at this point it would be more appropriate to phase in and therefore we could accept at this time that we reduce down to seven years and then to five years. So often it gets locked in, carved in stone, and then it is forgotten that the whole ultimate purpose was to have immediate vesting.

Yes, we recognize there could be a cost factor for an immediate adjustment. But the actual goal is to have that kind of immediate vesting, and therefore to work towards it and set up an actual time limit to do so, as opposed to just saying for now we will bring it down to seven years or five years or whatever.

Mr. Cureatz: I was interested in your comment in regard to the splitting of the pensions as a provision in case of matrimonial breakup. Have made submissions of any kind to the Attorney General (Mr. McMurtry) in this regard?

This came up before from a previous group, which had not made a specific presentation. They asked the chairman and this select committee to suggest that possibly the Family Law Reform Act should be reviewed again in order to emphasize pensions. What I am asking, I suppose, is if you would suggest strongly that the committee pursue that matter with the Attorney General.

Miss Phillips: We have supported it, not on our own, but by supporting the brief of the Ontario Council of the Status of Women, which has this as one of the important points in their brief. We have done it in this way, but we have not made a submission directly to the government on our own behalf regarding this point.

Mr. Cureatz: And would you like the committee to pursue it?

Miss Phillips: We would very much so, please, because we feel that this is one of the areas which, while people are aware of it, is not being utilized. I think there were only 950 cases in the past year where it was asked for and used. I am sure that there were a lot more cases where it certainly could have been used. This certainly is an area in which we are also concerned.

Mr. Brandt: I enjoyed listening to the brief, although I do have some concerns. One of them, which Mr. Cureatz addressed, was the matter of immediate vesting, particularly as it relates to the cost.

In a very general way the brief touches on many of the issues that the committee is attempting to address, and also the recommendations of the royal commission. But I do have some very serious concerns and I want to be up front with you and indicate those right off the bat.

The cost of implementing a lot of the recommendations that you have made are somewhat beyond the capacity, I would think, of the present economy to absorb. I could not take issue with very many of your recommendations about the direction you want to go in because from the main standpoint--

Mr. Mackenzie: It is a bottom-line brief.

Mr. Brandt: That is not quite the way I would have described it. I described another one to you in that context. This is a different brief.

Mr. Mackenzie: You thought the one from the chamber was an excellent bottom-line brief. I think this one is more appropriate.

Mr. Brandt: All right. Maybe I should address the question to Mr. Mackenzie, Mr. Chairman, since he knows the answer to this one.

Have you attempted in any way to put a cost on any of the recommendations that you have put before us? I realize it is a large and very complicated task. You are not dealing with merely

hundreds of millions; you are making recommendations that cost in the billions of dollars. Do you know that?

Miss Phillips: Yes.

Mr. Brandt: It does not bother you?

Miss Phillips: We are aware of this and it bothers us. This is why we have looked at phasing-in areas. We are not familiar with the actuarial reports, et cetera, so we are not able to get right down and say we recommend it come in at this or that per cent. We realize that the costs are tremendous. This is why we have advocated that there has to be a phasing in, that it has to be shared. CPP is one way of doing this.

I will ask our research co-ordinator if there is anything I have left out of this. I am sure there is.

2:30 p.m.

Mr. Brandt: Let me be specific. In your recommendation five, you say that contributions should be increased immediately, however the full increase should be phased in. Are you not asking for the best of both worlds in that statement? Or could you perhaps elaborate on what you mean by that?

Miss Gribben: If I may, just for a moment: The very question that you have asked to the president in relation to the tremendous cost--it was not so many years ago when that was exactly what you heard from this government and the federal government, about how you could not possibly reduce the qualifying age for the old age pension from age 70 to 65, because it would be far too costly. Today, we have pensions available to our elderly at age 65. If we had listened to your hue and cry and your complaint about how costly it was--

Mr. Brandt: I assure you it is more than a hue and cry, and I do not make an analogy between 70 to 65 and--

Miss Gribben: I am not trying to belittle what you are saying, but that is exactly what happened. It is the same thing. Sure it was expensive, and so it had to be graduated down; and we are taking the same position. We believe and we know there is a large cost involved in this, but we cannot, in the same breath, because of cost, allow our elderly to live in poverty or in sub-poverty, to die with humility, without the necessities of life, simply because we have sat on our petards at this point and said to ourselves, "We never can do it because it is just going to be too costly; we cannot find the means."

I think further, that when you ask us what it will cost, we know, from what you are saying and from what we know ourselves, it is a large cost, and we are not trying to belittle it. From our standpoint, we do not have the facts, the data, the figures, the wherewithal that the governments would have to be able to make that proper estimate as to what the cost would be; so we do not know whether we are talking--

Mr. Brandt: I am sure that you are aware of the arguments; and I am not trying to be provocative, Mr. Chairman, but only to--

Mr. Chairman: You never are.

Mr. McClellan: It is all inadvertent, is it?

Mr. Brandt: Totally. The argument has been put forward that we shall be hard pressed, not from the standpoint of justifying but from the standpoint of being able to handle the costs of the programs that we have now, as a direct result of the demographic changes that are occurring in our society, primarily as it relates to pensions. There are a larger and larger number of people who are entering the retirement age and a smaller number of people who are providing for them, which is really a cause-and-effect relationship that one has to be realistic about.

So there are some who would argue--I am not arguing a status quo, believe me, when I say that, but I am arguing that there are going to be some major difficulties in our economy adjusting simply to the changes in numbers that we have to face as a given reality. It is not just some planner's dream that we are going to have hundreds of thousands more retirees. That is a fact. The problem is, how do you enrich the program at the same time as you are dealing with an enlarged group with a smaller base upon which to fund those very desirable, and in many cases, needed programs?

I agree with you, we should not allow our elderly to die in poverty and so forth; that goes without saying. We are attempting to find ways to see that does not happen, but the problem that we have got, if you look for a blanket enrichment and you simply enrich pensions for everyone, perhaps we are not zeroing in on those we might be able to help, given a finite resource base.

So perhaps you could address part of that, because I am concerned that your brief may bring about rising expectations in the minds of some people, to a level or beyond a level that we are able to even come close to being able to handle.

Mr. Latchman: If I may say so, it is exactly for that reason that we are recommending that we make a start now, because that problem will become larger if we leave it for later. It is the demographic changes and the smaller base to support the elderly that will become a larger problem later. We are recommending that you do it now, that you start now to do it.

I do not agree with the idea that the economy cannot at this stage begin to do something to improve the level of pensions. I do not think we agree with that.

Mr. Brandt: I did not say that. I said, to the extent that you have outlined here, for the level of benefits generated--

Mr. Latchman: Yes, but you must recognize the fact that the extent to which we outline here, we are not asking that this be done immediately under the present economic situation. What we are asking for is that this be set as the goal, the objectives, and

that a start be made now rather than leaving it for later to achieve this goal.

Mr. Brandt: I will let someone else take the floor in a moment, Mr. Chairman. I just wanted to perhaps zero in on one other one. In recommendation number nine, you say there should be immediate vesting. That's a pretty straight forward direct statement. There is no phase in there at all. Some of us thought we were taking a quantum leap by going to five years and we spent a great number of hours in deliberation on this committee attempting to figure out whether or not five years would be a realistic timeframe for vesting.

We have had countless groups come before us who have indicated some problem with that kind of vesting. I think it is starting to catch on in terms of its acceptability to a greater extent now but there has been some reservation about the ability to even fund that cost and you are asking for us to go--there can be nothing more than immediate vesting. That's the ultimate. That's what you are asking for here so I don't see where you are being moderate in your approach, your phasing in that respect.

Miss Gribben: If I may respond on that basis, it is the health field which is our area of interest and a large portion of our nurses are already covered under a pension form that already has an immediate vesting. Right now, OMERS has immediate vesting and it covers a large number of our public employees--the municipal, the school boards.

Quite frankly, you have got a very large group of employees in this province already attached to an employer contributory type of pension plan that has immediate vesting. Admittedly, the other large pension carrier that covers our hospital people has, in our estimation, an unreasonable length of time in the delay in the vesting. It is not as if it is not already in effect for a very large number of employees already employed in this province and it does deal with the employer pension plans that we are talking about.

Mr. Williams: I would like to go to your concern number 12, coverage for part-time employees. Obviously, because of the high content of part-time workers within your profession, it is probably one of the more important, certainly one of the high profile priority items that I can see you obviously addressing and expressing concern over.

We spent a great deal of time here one day last week trying to develop a definition of what a part-time worker would be as far as qualifying for pension rights and benefits. I am wondering if you could assist the committee in trying to give some definition to that term. At that time we I guess really tried to zero in on a limited number of working hours within a week on an on-going basis but you may have other thoughts or you may feel that's the type of formula you have to develop. I don't know. Could you assist us?

Miss Phillips: According to our contract, a part-time person is one who works less than 37.5 hours specified as the working week. We have said that those employees who work on a regular basis--now they could work maybe one tour a week--they

could work two tours or three tours--we feel that it would be beneficial if this were prorated, based on the annual income and prorated to that of a full-time employee. This is basically how we see it happening.

Mr. Williams: So it would average out to not less than that many hours? How many hours did you say?

Miss Phillips: Our full tour is 37.5.

Mr. Williams: Yes, right.

Miss Phillips: That is a full-time employee, but really we define a part-time employee, as I said, as anyone who works less than the 37.5 hours per week.

Miss Gribben: If I might add, I think the other aspect is that we don't want to fall into this pit, and I believe it to be a pit, where you start to talk about how many hours should it be because always then, there is going to be somebody who works regularly but just doesn't quite make enough hours and they are going to lose out entirely.

From our standpoint, a regular part-time person can very easily be described as a person who works on a regular basis and probably on a pre-determined schedule. It could be only one day a week but it is every week, or it could be two days this week and three days next week sort of business, but it is more on the basis that she works on a regular basis as opposed to some person who comes in and works this month and works a couple of days and then you do not see them for two months.

2:40 p.m.

But there is a real danger in saying it is so many hours, because you could have that person falling one hour short of it and therefore it is like the the old saying of being born 30 years too soon or something. That is the danger of putting that aspect to it. But if she works on a regular basis so she is there, she is being paid on which there could be deductions made from pay, then there should be no reason why she cannot have access to a contributory pension plan.

Mr. Haggerty: What happens when you have a 12-hour shift that nurses are now working?

Miss Phillips: Then she would still be working on a predetermined basis regularly.

Mr. Haggerty: Does it mean they work four days one week and perhaps next week are off?

Miss Gribben: It is a compressed work week.

Mr. Haggerty: They are only working--I know it is pretty hard to catch up with, but I imagine it would cause some problems there. You may be considered as a part-time employee eventually by working 12-hour shifts.

Miss Phillips: I am sorry. You did just say you may be considered a part-time--

Mr. Haggerty: You may be considered as part-time employees if you do the 12-hour shifts. You are working one week and you are off the next week.

Miss Phillips: What you are really doing is working the compressed work week. If you are a full-time employee working the 12-hour shift, you are not defined as a part-time employee. The part-time employee is the one who is predetermined on a basis less than the regular number of hours per week, as defined per the contract. You are hired as a part-time or a full-time employee. I really do not feel this would fall into that category.

Mr. Haggerty: Yes, but working 12-hour shifts, though, would it not cause other problems or would it mean to the industry, for example, that you would have to have additional part-time workers there to fill in, in case you are working four days at 12 hours a day and perhaps there may be some person not feeling too well or something, and they lose a day out of that? Are we looking to have more part-time employees under the four day a week shift?

Miss Phillips: I do not feel that this is a problem which has arisen. You are looking at the compressed work week and it is filled in from there. I do not think I have answered the last part of your question.

Mr. Haggerty: It is an interesting point that I am trying to find out about this compressed work.

Miss Gribben: If it helps at all, right now we have in many areas of hospitals across this whole province for full-time people a compressed work week, which is the 12-hour shifts. So there is no problem in terms of where you have three shifts to cover, you now have two shifts to cover of the total staff.

Mr. Haggerty: Has it required additional manpower?

Miss Gribben: It may or it may not.

Mr. Haggerty: This is the point I was trying to make.

Miss Gribben: But it does not have any effect on the pensions or the fact that the hours you are working because what you have--

Mr. Haggerty: It could be that you are going to have enough part-time--

Miss Gribben: It is a full work week when you are working three 12-hour shifts this week and four the next. In fact, that is even more than a full week in the following week, but it averages itself out, say, over three weeks' or four weeks' time. One just cannot isolate each week and say it is that, but our full-time people are working a three-shift week.

Mr. Haggerty: But I was just wondering if it does not in this type of a compressed work week that we do find that there are requirements for additional part-time employees. I am thinking, in particular, of the nuclear industry at Douglas Point around this and the 12-hour shifts.

Miss Gribben: You are right. It could to a certain extent or we simply did a different adjustment with full-time people.

Mr. Haggerty: You have no figures on that.

Mr. Williams: Just coming back to the main question, I think you are quite right, there are two elements to the dilemma. One is part-time and one is regular. The two have to go hand-in-hand. Certainly in some industries, regular work can be on a seasonal basis and there may be a number of months go by where they would not be working at all because of the very nature of the work, not so in your particular profession because it is more of an ongoing type of work activity without seasonal considerations.

In talking to one group last week, they were looking at the lower end of the scale as to the maximum number of hours you would need before you could consider that you were a regular part-time worker. They were applying it to two thirds of the regular work week in hours. In your type of profession, I do not know that you can do that.

Miss Gribben: First of all, on general principle we would not accept that basis that two thirds of full-time work would qualify as part-time. The Ontario Labour Relations Board right now--and it is a little outdated--says that any person who works less than 24 hours is a part-time person for the purposes of labour matters and any person who works over 24 hours is deemed to be a full-time person for labour matters. So we certainly would not be promoting a two-thirds aspect.

Frankly, we are very concerned when you lay any kind of hours in there. Look at it on the basis of whether they are regularly employed, there are deductions and they are able to make contributions as opposed to whether it is seven and a half hours every week or 15 hours or 22 1/2 hours every week.

Mr. Chairman: We have had people come before us suggesting that we use the expression "durable relationship," wherever there is a durable relationship. So there is something else for you.

Mr. Williams: Just rounding this out, using the pro rata concept you have come at because of the particular nature of your profession and the working hours, could I extract from you the lower end of the scale as to the number of hours on a yearly basis? Have you ever given thought to that?

I know you are reluctant to come to a lower figure in the number of hours worked because you say anything less than the full is part-time and it would not fit the criteria. You say two thirds is not a realistic figure. What figure, using that pro rata

consideration, do you think is a reasonable figure in a given 12-month period?

Miss Gribben: Allowing for the fact that everybody is entitled to a certain amount of vacation, I will not take the full year. I think on the basis that, if a person worked at least one tour--as you said, I am reluctant to give you any hours because I think a lot of damage can be done by getting wedded to an hour basis--but on that basis, if a person worked one day a week every week of the year except for the time when he is entitled to vacation, then I would say the minimum would probably be 47 days times seven hours, so that would probably even off at 300 hours.

Mr. Mackenzie: I am pleased that your brief takes a serious look at the needs of a heck of a lot more people than just your own organization. We had very much an "I'm all right, Jack" brief this morning that disturbed me no end and I think I indicated I was not very happy with it. The reputation the profession has I think is well supported in the kind of brief you have here.

I am particularly pleased--and I want to make a point of it; I hope you do it everywhere you are arguing--with point number five. One of the difficulties we have in talking on a broad scale with the need for more adequate pension income and to maintain the portability and the universal nature of it as well as to get us into a variety of improvements, you are obviously dealing very heavily in costs.

I was pleased to see you people state very clearly that you want to see an immediate increase but that the full scale of the increase should be phased in. I have difficulty understanding how that could bother some people because, while that has been the argument against increases in universal pension plans, most of the responsible groups before us--and I think it started with the Ontario Federation of Labour--have stated very clearly that there will be more cost to this.

It is something my colleague and I have gone on record as understanding and stating from day one because part of the argument is going to be to convince the public that an adequate pension is going to cost a little more.

I think you have set the stage and you have been a heck of a lot more up front than some people in clearly stating that you increase it now and you phase it in. I think most of the evidence before us has indicated that that is the proper approach and one to be expected. Most of us knew that we were going to have increases in the Canada pension plan payments not too far down the road in any event; it was the intent from the beginning. So I think if we face that fact it's a little easier to start discussing exactly what we can do with pensions generally.

2:50 p.m.

The other point is the vesting. Once again, I don't have difficulty with what you have said. I feel almost a little guilty at times. It's almost two years ago in this House that I moved a motion for five-year vesting, because up to that point we weren't

getting anywhere, and that particular motion or resolution did pass the House. No action was taken on it, but we moved it.

The evidence, rather than indicating some real trouble with that--and I guess this is the difference in the perceptions of my colleague and myself--is that most of the groups before us, including management groups, have indicated: "Yes, if you accept the principle that pension payments are deferred wages there's no argument against vesting, including immediate vesting." Now, most of them don't want immediate vesting, but a number of the groups before us--I would say more of them--have gone the reverse way and have indicated that there wouldn't be that much problem with diminishing the vesting period. But certainly five years is not difficult.

This committee itself, in the evidence before it, indicated that we could do it in five, and in three years we could look at reducing it or leave it up to the the pension commission to reduce it still further. It's my feeling that probably the weight of evidence before us is that we probably could have had a lesser vesting time even than five years. I'm not sure we shouldn't be rethinking the original motion that we have already included in our interim report before the House.

I would like to have a list done of those who say, "Hey! We can't do it" and of those who say, "Yes, we accept that it has got to be done." Even some of the management groups have said, "You can do it in a lot less than five years." So once again, it's a difference in perception that you will get as to whether or not one should decide (inaudible) you can go to a lesser vesting period. I don't think you are too far off base in making the kind of suggestions you have made.

You might have some difficulty in going immediately to 75 per cent of the average industrial wage. I understand the costs in that; that's something you would sure as blazes have to take a look at, and I have no difficulty with knowing that we can't buy what we can't afford. But I think the basic things you are accepting here are that: "Hey, look, we need better pensions; that's the bottom line as far as we're concerned. They have got to cover everybody, they have got to have portability and we have got to understand that we are going to have to pay for them."

The only real argument I think we get is over the kind of percentages that various groups throw before us as to what the actual cost is going to be. I just think the approach you have taken is a positive one, and I really do want to congratulate your group on it.

Mr. Chairman: I think you got a pretty satisfactory answer to that question.

Mr. Mackenzie: Well, if one looks into some of the other positions and getting where the bottom lines are in some of the other briefs, Mr. Chairman.

Mr. Brandt: (Inaudible) we might as well exceed what Saskatchewan has done and a few other jurisdictions.

Mr. Mackenzie: Mr. Chairman, I'm finally getting some support. I have been suggesting all along that when you get increases in CPP, if Ontario would take the lead-- The very problem the feds won't act is because they don't know what Ontario wants to do. It's time we did show the leadership.

Mr. Brandt: My last statement was with tongue in cheek, let the record show.

Mr. Cousens: I think you're breaking him down, though.

Interjections.

Mr. McClellan: I was interested in the Ontario Nurses' Association's proposal with respect to old age security. Our party is looking increasingly at a combination of old age security and CPP as a way of solving the problems of low-wage earners, of women, of people who are only partially attached to the work force and who can't expect a benefit from occupationally based plans. We're not interested, as you are not, in perpetuating welfare programs for elderly people.

I think you have basically a new proposal. I want to make sure I'm understanding your proposal. Are you suggesting that old age security would no longer be a flat-rate benefit and that it would provide an effective guaranteed income up to 75 per cent of the AIW?

Miss Phillips: In conjunction with the CPP. And we're suggesting that eventually the CPP would support 50 per cent of the 75 per cent for those people who are eligible under the CPP. Of course, for those who are not eligible then the OAS would be required to supplement up to 75 per cent.

Mr. McClellan: How would you administer that so that it did not look like a welfare program?

Miss Phillips: It probably could be administered just as it is, and basically with the increases in it. I was going to say you just rob Peter to pay Paul, but that is not really the simile. You are not really supplementing, you are basing it on what it is, the 75 per cent.

Miss Gribben: Your CPP would be your kick-in. It would be the flagger. If you have got CPP, then, needless to say, that cushion is federally administered, it is the central administration. So it flags. If there is already 50 per cent of the average industrial wage, then the OAS will only pay the 25. However, if there is something less than, or zero, coming from CPP, then the central administration pays it as an OAS to the individual.

Mr. McClellan: It is an interesting proposal. We have been looking at the same base figure, 75 per cent of the AIW, and trying to work out an appropriate mix of old age security and CPP. What we seem to be coming down with is a mixture in the order of 40 per cent AIW from old age security and 35 per cent from CPP, with a very tough tax credit provision, basically to accomplish the same

objective. At this point we are arguing administration rather than principle, I think.

Miss Gribben: I think one of our concerns is that eventually, given enough time, the working force can, through its CPP contributions, bear a fair portion of that basic guaranteed income when you reach retirement age. Right now it is not because it has not been in effect long enough, and there are a number of people who do not even make enough money to reach the upper limits of it. I think what we are trying to help to get established is that eventually the workers will have been able to contribute and have made available a large portion even of the basic old age assistance that you need when you retire.

Mr. McClellan: One of the things that gives me the willies is the kinds of claims that seem to be made with respect to, let's say, advantages that are predicted for covering part-time workers, and that is divorcing the coverage of part-time workers from the kinds of things we have just been talking about, which is enriching CPP and enriching the old age security. I think a lot of people, perhaps even some members of this committee, have the position of nonenrichment in the public sector, but are prepared to talk about coverage for part-time workers, and of course that means low-income workers who do not have enough money in the first place. They will now be invited to put a fixed percentage of their already inadequate paycheque into a pension program which will guarantee them, at the other end of the pike, a totally inadequate pension benefit.

When we are talking about part-time workers with respect to your profession, are we talking about low-income people or not? I mean, in terms of family income. Do you have a profile of the part-time--

Miss Gribben: No. We are in the process of doing that. Next month we hope to be able to complete a membership profile in that aspect. We know already, but we cannot give you the quantitative numbers, that first of all, on the basis that we are a predominantly female organization in the work force, and also just looking at the statistics that are available for us in Canada alone, a lot of our married women are in the position of being a single dependent person and family

Mr. McClellan: That is what I was wondering.

3 p.m.

Miss Gribben: We know there is a lot of that as well. I don't think our profession is immune to the divorce aspect as opposed to any of the rest. I think we would fall probably into the same kind of comparison as you would find out there for stats for women across the country. Yes, she could be. In fact, if she is the sole parent having to bring in an income and having to do it on a part-time basis--because we do not have the day-care facilities and many other things I could on a kick about--and, therefore, she has to give some time at home, yes, she is in a low-income bracket, because she is only able to work two or three days a week.

Mr. McClellan: Right. Again, just a cautionary note from my own sense that, unless we are moving in a fairly measured way through enriching the public sector component of the pension system, we are not going to be able to do very much for that particular group of employees, except perhaps to take even more out of their already inadequate part-time pay cheques and put it into a part-time pension.

Miss Gribben: Again we would see that person--we are saying there is going to be the universal 75 per cent of the average industrial wage and we hope, right now, allowing part time to contribute into some form of pension, even though it is a very inadequate topping. We are suggesting employer pensions continue and they be looked at as characteristically towards other kinds of topping or improving of plans. At least at this point it would be better than what she is getting now, which is nothing.

Mr. McClellan: Yes, I agree. You and I are talking about it within the context of the guaranteed 75--

Miss Gribben: That is right.

Mr. McClellan: Others are talking about it within a vacuum. I think that is where the real danger is.

Mr. Chairman: Any further questions? Thank you very much Miss Phillips, Miss Gribben, Ms. Beggs and Mr. Latchman. We certainly appreciate your taking the time to come before us today and to review your brief and recommendations. It has been very helpful.

The next delegation is the Ontario Hospital Association. You have exhibits 97 and 167, which you may wish to refer to. The president is Mr. Ingram. Would you like to bring your delegation forward and introduce them.

ONTARIO HOSPITAL ASSOCIATION

Mr. Robinson: Thank you, sir. Mr. Chairman, may I introduce the delegation specifically? On my right, Mr. Jackson, who is the administrator of the hospitals of Ontario pension plan. On my far left, Mr. McCaw, who is an actuarial consultant with William M. Mercer Limited. I am Mr. Robinson, social executive director, finance, for the Ontario Hospital Association. On my immediate left is Mr. George Ingram, who, as president of the association, will present our addendum to our original submission to this committee. Mr. Ingram, in addition to being our president, is a full-time member of the staff of Spruce Falls Paper Company and is director of environmental studies with them, a very long-time member of that staff.

Mr. Ingram: Thank you, Mr. Robinson. Mr. Chairman, members of the select committee, we do appreciate very much having this opportunity to speak with you this afternoon. Back in August 1981, the Ontario Hospital Association filed with your committee its submission over the signature of my predecessor Meritt Henderson.

I don't intend to go into detail on what was in that submission, sir, but I would suggest with your indulgence that I deal very quickly with seven key points in that submission, as follows:

Item 1, which is an area of our strongest reaction, hospital employees are not government employees. Their hospitals of Ontario pension plan, or HOOPP, as it is commonly known, is not a public sector plan and therefore should not come under direct control of Management Board.

Item two, on page four of that submission, some reasonable protection against inflation is desirable but any adjustment of pension should be properly funded.

Item three, on page five of that submission, vesting and locking-in provisions should be improved substantially but the employee's age should be a factor for consideration.

Item four, page six of that submission, the concept of a basic compulsory private plan for all employees is desirable, especially for those whose employers do not provide a plan, but some of the suggested features of the provincial universal retirement system or PURS are undesirable.

Item five, page eight, the Canada pension plan should continue on a pay-as-you-go basis with a small reserve but the federal government should undertake a better communications program to explain the different bases of funding between the Canada pension plan and private pension plans.

Item six, page nine of the submission, the test valuation presently required under the Pension Benefits Act of Ontario should be retained and strengthened if necessary, with other actuarial matters left to the profession under the scrutiny of the Pension Commission of Ontario.

Item seven, also page nine of the submission, the pension plan should not suffer any further restrictions on the limited opportunities it now has to benefit from holding foreign investments.

It may be noted that from the Ontario Hospital Association's point of view, the first of its above recommendations is of the most urgent concern. Since the OHA's position on that issue is set out in its original brief to the select committee, it is not repeated here. However, we hope that it will be strongly supported by your committee in its future deliberations.

Areas of concern regarding the select committee's recommendations follow. The select committee's first report included 18 recommendations, four of which touched on areas included in the OHA's submission. The OHA is in general agreement with many of the select committee's recommendations but wishes to make specific comments on three of them as follows.

Recommendation seven, employer cost on termination: This recommendation would, if adopted, impose a minimum 50-50 cost

sharing arrangement between employer and employee for a specific type of member, the terminating employee with a vested benefit. No such guarantee has been extended to other members.

Noting that no fewer than half of the committee recommendations relate to improvement of termination benefits, we are concerned that the terminating employee could end up with a signficant advantage over members who remain until retirement.

Determining the value of the benefit is, in itself, a problem. No matter what assumptions are made at the outset, they will become outdated so that the timing of the termination can affect the benefit. There is also a communications problem. No matter what amount is returned to the employee, he or she will not know if it is the appropriate amount because that depends on actuarial calculations which are not known to the employee.

Another concern is that this proposal will add substantially to the administrative cost. The Hospitals of Ontario Pension Plan, for example, has about 7,000 terminations per year compared to about 1,000 retirements. Higher administration costs may well discourage smaller employers from offering a pension plan, let alone having a final earnings type of plan. For smaller employers who do not presently have a plan, this is just another impediment to installing one.

Recommendation nine, locking in. The OHA supports improved vesting as recommended by the select committee. It also supports earlier locking in of pension credits. The OHA still contends, however, that age should be retained as a factor of the locking-in provision. To lock in pension contributions for a young employee is substantially different from locking in at age 45 or over, at the present.

Younger employees not only have high turn-over rates, thus making pension participation relatively ineffective, but are often under severe financial pressure. At that point in life, their income level is generally at its lowest while the demands upon it are at its highest, if they are trying to establish a home and a family. To force such employees into another locked-in contributory pension plan while they were already contributing to the Canada or Quebec plans is unreasonable. It presumes that pensions are the only way to prepare for financial security.

On the other hand, we acknowledge that the present locking-in provision at age 45 and 10 years of service is also inadequate as shown by the experience of HOOPP. The average service at retirement of the 1,000 or so employees retiring each year under HOOPP is still only 12 years, even though HOOPP has been operating for 22 years.

As a sensible compromise, the OHA suggests that the locking-in provision should apply when the employee reaches age 30. This will allow the employee 35 years of pension accrual before a normal retirement age of 65.

<u>3:10 p.m.</u>

Recommendation 17, allocation of excess interest: While the OHA endorses the select committee's recommendation 16 concerning the augmentation of benefits for retired members and deferred vested benefits, it does not agree with recommendation 17 which proposes a legislated approach to the application of interest in excess of actuarial expectations. The basis of this suggested approach is the assumption that excess interest will accrue in times of high inflation and hence can be used to meet the addition income needs of pensioners. It would also be necessary to assume that pension plan reserves are well funded. However, both of these assumptions may be invalid at any time.

The OHA contends the excess interest approach is not a suitable way of establishing benefit levels, although it can be used as an actuarial device for long-term funding purposes. OHA supports an ad hoc approach with the employer examining all factors such as the financial position, the fund, the effects of inflation and any other considerations that are relevant at the time. The Ontario Hospital Association is grateful for this opportunity to meet with your select committee and to amplify points made in our original submission. We would be very happy to answer any questions you might have.

Mr. Williams: I have two questions referring to your original brief. When you were talking about the deficiencies, as you saw them, in the PURS plan, one of the criticisms you had, on page seven, was in regard to the central pension agency. Specifically, you stated that expansion of this involvement through a central pension agency would be cumbersome, expensive and open to abuse in the future.

I have heard the criticisms about it being possibly cumbersome and expensive. Could you elaborate as to what abuses you perceive could develop if such a vehicle were put into place?

Mr. Ingram: Mr. Jackson could perhaps respond to that.

Mr. Jackson: Primarily, I would assume the utilization and the investment of those funds, other than the market conditions, that is really what it amounts to, may be deemed in time to become general taxation, if nothing else.

Mr. Williams: Do you mean there might be some abuse in the way the moneys would be invested in the private sector?

Mr. Jackson: I presume this could or could not be the private sector. We are saying there are vehicles in the private sector now, such as trust and finance companies, et cetera. Let's leave it in the private sector. The central pension agency might just become another government plan that some future government may or may not lay a claim to for some social purpose or otherwise, and not necessarily the individual members related to that. They might decide other things also for the benefits flowing from it.

Mr. Williams: I would presume that if any central agency were established, whether under the PURS plan or in conjunction with a voluntary arrangement within the private sector, its terms of operation, both as to being of assistance to the private sector

as an information outlet and as far as directing investments and so forth, would surely be very tightly controlled by legislation so they would have very strict guidelines within which they must operate.

Mr. Jackson: If they are maintained, I see no problem.

Mr. Williams: The other point you raised in your original submission was your concern about the fact that some plans, as you see it, could be prejudiced as far as their investment portfolio is concerned if they are restricted to investments within the country--in other words, no foreign investment.

Has your own plan had some experience in this field as far as foreign investment is concerned? Does HOOPP have a portion of its portfolio presently invested outside the country, and what has been your yield experience there? Why do you feel that, even if you were restricted to Canada, there would not be enough investment opportunities to ensure a strong performance factor within your administration of the plan?

Mr. Jackson: I defer to Mr. Robinson.

Mr. Robinson: We do not deny that there are many opportunities, from time to time, within Canada to accrue a very significant benefit to the pension plan, but at the present time, pension plans are limited to 10 per cent of their asset values that may be invested elsewhere. I think all pension plans need that flexibility to take advantage of specific opportunities to enlarge on their investment income and, in the long run, strengthen their plan.

There is no guarantee that, at any time, investment will always be better in Canada than in another country. The limitation imposed at the present time, 10 per cent, gives some flexibility and certainly does not deny investment opportunities within this country, but just provides that opportunity to take advantage of specific situations.

Mr. Williams: You may or may not wish to divulge this, but, if you have the information at hand, what type of investments do you make in that portion of your portfolio that is invested offshore, so to speak, without any (inaudible).

Mr. Robinson: Quite by chance, since it arrived on my desk from our investment managers this morning, I do have a list. I have not gone through it all, but, if I can perhaps come back to that--I have to find it--this is rather a voluminous document.

Mr. Williams: Maybe you could respond later while others are answering other questions from other members, if you want the opportunity to look that over.

Mr. Brandt: Could I ask a supplementary on that, Mr. Chairman?

Mr. Chairman: Maybe Mr. Robinson could have an answer now. I would rather see that come forward. Mr. Bentley has also

indicated that he would like to ask a question (inaudible).

Mr. Brandt: The supplementary may not require any research. Is it your position, from the comment you have in your brief, that you would like a liberalization or an expansion of the foreign investment opportunities, or are you simply asking that it not be in any way restricted further and saying 10 per cent is a reasonable, workable figure? Is that your position?

Mr. Robinson: Yes, it is. We think the 10 per cent provides sufficient restriction at the present time. There may be occasional opportunities when it would be helpful to be able to expand one's investments. In principle, perhaps here I am speaking as a Canadian, funds should generally be directed towards investment in our own country.

Mr. Brandt: That is an interesting point that has not been raised by too many of the other presenters we have had to date. It is one we have not paid a great deal of attention to, only because it has not been highlighted. I welcome the opportunity to at least look at it within the context of investments, because it is an important area of concern.

Mr. Robinson: At the present time, we have just over nine per cent invested in foreign equities and bond securities--

Mr. Chairman: Are they mostly American?

Mr. Robinson: Mostly American.

Mr. Williams: But you have gone further afield?

Mr. Robinson: As a matter of fact, we have an interest in Europac funds at the present time.

Mr. Bentley: I just want to clarify something that has not come out for the members of the select committee. There is nothing under the Pension Benefits Act, as it exists now, restricting, except the 10 per cent limitation with respect to any one investment in any one corporation, business, and so on.

You can invest under the Pension Benefits Act, outside of Canada, any amount. That is the determination. It is the Income Tax Act that fouls you up and the rules under the Department of National Revenue. I wanted this to be clear to the members of the select committee that in Ontario--in fact, your problem was with the Department of National Revenue, in that you can have greater investment but you pay a very substantial penalty if you exceed--if more than 10 per cent of the income of the pension fund at any one time is from foreign investment, you pay a penalty on that.

Mr. Robinson: Thank you for (inaudible)--

3:20 p.m.

Mr. Bentley: I have to do this all the time because too many people accuse me of doing nasty things and we are not responsible for them.

Mr. Mackenzie: If Wells will forgive me, could you go over that again? Are you telling us you do have the ability to invest more than 10 per cent of the total investment capacity of a pension fund, off-shore, if you like?

Mr. Bentley: Under the Pension Benefits Act, as long as it is an eligible investment under the terms of the Pension Benefits Act, you can have greater than 10 per cent of the total assets of the fund at book held in offshore investments.

The rule that affects it is a rule of DNR that says that if your income from foreign investments is greater than 10 per cent of the total income of the plan, then you pay a penalty on this excess.

I think the penalty is what? One per cent of the excess per month, or some figure like that. I can't remember exactly what the figure is. Under the Pension Benefits Act you can, if it is an eligible investment under the terms of the Pension Benefits Act, invest in foreign offshore investments.

Mr. Mackenzie: May I ask a further question on the same thing then? Is the penalty large enough in terms of what happens to make it unprofitable to go beyond it--what I am really thinking of, and I understand the benefit on occasion, the argument has been made of being allowed some foreign investment but it also seems to me it negates one of the many private arguments we get about the need to develop funds and capital in this country instead of investing it offshore.

Mr. Bentley: I would suggest the penalty under the Department of National Revenue rule is sufficient to deter anybody from exceeding the 10 per cent offshore investment.

Mr. Mackenzie: Is there any danger of that penalty being changed at that level and our being left holding the bag at the provincial level? In other words, is there any merit in having some limit provincially on what can be invested outside?

Mr. Bentley: That is a philosophical question.

Mr. Mackenzie: It may be a philosophical one but it could be a very real one.

Mr. Bentley: It can be a very real one if DNR relaxed its rules. I think that all provincial governments would then have to take a look at what they would consider--

Mr. Williams: Mr. Bentley, I think we discussed that in the opening days of the session, this foreign investment problem. It was pointed out there was complementary provincial legislation that also inhibited the loan and trust companies and I think insurance companies from investing more than I think it is also 10 per cent offshore without being subject to penalty.

Mr. Mackenzie: I don't take it quite as clearly as this. I just assumed the 10 per cent without realizing the implications.

Mr. Haggerty: What happens when you get this branch-plant economy and you get large international companies here--you can have as many as 3,000, 4,000 Canadian employees paying into it, and all the pension fund leaves this country and goes into--

Mr. Bentley: No.

Mr. Haggerty: Does it not? Is that right? Is it controlled? Where is it controlled from?

Mr. Bentley: No, it is controlled under the Department of National Revenue rules and the only examples that I can recall now are some of the old employee pay-all pension plans that were in existence many years ago. If I recall, the funds are still funnelled through to the national headquarters in the States. Very few of those kinds of plans exist any longer.

Mr. Haggerty: What I was getting at was International Nickel Company. Mr. Mackenzie and I were on the select committee dealing with that and we found that for all the employees there the pension funds were going to Aetna Insurance in the States. They controlled the pension funds.

Mr. Bentley: They have many operations in Canada, as you are aware. Where the ultimate fund goes--

Mr. Haggerty: We found out that maybe some of the pension fund was being distributed to places called Guatemala and Indonesia.

Mr. Williams: If I could finish on this point--certainly, we can't make decisions based on one example, nevertheless, just pursuing your own situation as a matter of interest to at least give us some sense of feel in this area, for what period of time since your plan has been in existence have you been taking advantage of this 10 per cent allowance factor?

Given that period of time, you indicate that one of the reasons for going that route is to take advantage, as you say in your brief, of economic cycles and trends and to protect against currency fluctuations. How have you fared on a performance basis over the period of time that you have been investing that 10 per cent abroad? Have you come out ahead or behind in allowing for currency fluctuations?

Mr. Robinson: I cannot answer that specifically. I am not privy to the exact numbers; I do not have them with me. The extent of our investment as a proportion of our total fund has varied from time to time. I can only quote comments which have been made to me that the return has always been quite satisfactory. We have been able to take advantage of particular opportunities from time to time.

Mr. Williams: My last question: Do you really feel that you would be disadvantaged if the decision was taken legislatively to keep all investments in the country? Do you really feel that there are not enough investment opportunities in this country that you would be disadvantaged?

Mr. Robinson: In the light of the many consolidations of companies which have taken place recently, there are reducing opportunities for investment, specific investments which qualify here in Canada.

I do not think it is possible to say that we would be at a disadvantage. One can speculate that under a given set of circumstances there could be a disadvantage or an advantage. I do not think one could say for sure. It would not kill us to be without that opportunity. Potentially, even with the opportunity, we might never put a nickel into another foreign country, but I think it is an advantage to have the ability to be able to take advantage of particular investment opportunities from time to time for the benefit of the plan.

Mr. Mackenzie: I have a question on number three in your exhibit 167: I am wondering, given that particular request that employees' age should still be a factor for consideration, whether or not your group has accepted the principle that pension payments are deferred wages. If that has been accepted, which it has with most of the groups before us, how can you argue against vesting without the age limitation, because that is still going to cut somebody down in terms of their job mobility, carrying the pensions with them?

Mr. Robinson: Perhaps Mr. Jackson could answer that.

Mr. Jackson: We have not particularly accepted the philosophy of deferred wages.

Mr. Mackenzie: You have answered most of it, but I just wondered--

Mr. Jackson: It is not the problem of vesting. In itself, vesting does not cost anything in a contributory plan to speak of. We could vest immediately in our plan and it would not cost anything because the trouble is if the employee has the option of taking his money out, he will. For example, last year in the first 10 months, we had 425 people terminate with vested rights. They had the choice of leaving their money in or taking it in cash. Three left their money; 422 took it out in cash. So vesting in itself is not a problem. It is the locking-in provision that is the problem; the resistance that we would get to it.

We are not opposed to the locking-in much earlier. When I talked to employees, they feel it is quite an imposition even to have to join the pension plan in their 20s because they have, to their mind, more important issues to face at that particular point in their lives.

Mr. Mackenzie: What is the difficulty in accepting the deferred wages, because I think you have now become the third of the many groups before us that really have not accepted that? Most groups, including management groups, have, and I do not just mean most, but overwhelmingly they have.

Mr. Jackson: Perhaps we are a little different. Some of our benefits are not necessarily related directly to wages. For

example, we pay the full cost of the spouse's benefit under the plan. Why should one person, just because they have a spouse, get a better benefit than another person who does not? That would not necessarily follow from the deferred-wage concept. The spouse's benefit is automatic under our plan to anybody who happens to be married. If you are not married, then that is it.

Mr. Mackenzie: It is just a slightly better plan than something in that particular field.

Mr. Jackson: That's correct.

Mr. Mackenzie: You get a variation in pension plans in any number of companies, industries and businesses, you name it.

Mr. McClellan: Do spouse's benefits apply equally to men and women?

Mr. Jackson: Yes.

3:30 p.m.

Mr. McClellan: Does it?

Mr. Jackson: Oh, yes. Over 80 per cent are females, so it had better apply equally.

Mr. Van Horne: When you talk to employees about whether they want to be in a plan or not, you are suggesting the younger ones say they do not want to?

Mr. Jackson: Correct.

Mr. Van Horne: Is that in casual conversation, or do you go about it scientifically and completely? In other words, how representative is your statement of the views of the majority of those people?

Mr. Jackson: I talk to employee groups of up to 200 or 300 at a time. I have talked to perhaps 50 such groups a year. It is almost universal. The same thing comes back to me from these groups. The young people resent being forced into the pension plan even though they accept it as a condition of employment.

After the two years has passed, or the appropriate waiting period, they resent being forced into the pension plan. They resent having to provide for something that is 40 or 45 years into the future when they are looking now at trying to pay mortgage rates of 16, 17 or 18 per cent, et cetera, when five per cent of--

Mr. Mackenzie: Some of them resent union dues.

Mr. Jackson: That is correct.

Mr. Mackenzie: Some of them resent income tax. I'm not sure that is a valid argument though.

Mr. Brandt: Some of them resent politicians.

Mr. McClellan: That is valid.

One of the things our committee is having a little bit of difficulty in obtaining is some basic information with respect to various plans, for example, the total pensions payable, the number of retirees and the average payment per retiree per year, the average pension benefit per retiree per year.

I don't know whether you would have that information with you--probably not. But if you could obtain that for the committee, could you tell us--if possible for the last couple of years, but certainly for 1980--the total pensions payable for 1980, the number of retirees who are receiving the benefit, and the average payment per retiree?

Mr. Jackson: As I mentioned in my brief before, the average service at age 65 is only 12 years, and therefore the average pension payable is quite low. We have 14,000 retirees now and I would estimate the payout to be--I am just looking at last year's report and I am going to have to update it a little bit, that is all, to give you some idea. Pension payments in 1980 were $19 million, going up about 25 per cent per year, so it would be about $23 million last year with, say, an average last year of 13,500. So you are talking about 13,500 into $23 million, something of that order. It is less than $200 a month.

Mr. Mackenzie: Would you have the high and low range of that?

Mr. Jackson: Oh, yes. There is the turnover problem, as I said, 12 years of service at age 65--the average hiring age of the people we are talking about is 52 and that is rather unusual.

Mr. McClellan: So for last year it was $23 million--

Mr. Jackson: I am just guessing. We don't have the figures for last year. I am just taking the figures for previous years and adding about 25 per cent more.

Mr. McClellan: Right.

Mr. Robinson: I might add, Mr. Chairman, that the pension payment we made in total last month was between $1.9 and $2 million.

Mr. Jackson: For 14,000.

Mr. Robinson: For 14,000 in that month.

Mr. McClellan: Sorry, $1 million--

Mr. Robinson: Between $1.9 million and $2 million for just under 14,000 pensioners.

Mr. McClellan: Again, it illustrates the dilemma we are trying to confront. None of us would want to have to live on that.

Mr. Mackenzie: Do you have a high and low in that figure as well? It was very interesting in regard to the OMERS plan, for example.

Mr. Jackson: No, I don't have one readily.

Mr. McClellan: Would it be possible to pull those figures together for us, for example, over a five-year period, so we can have an idea of what is happening over time, together with the range, like the highs and the lows of payouts, so that we get a general sense of the income profile of HOOPP current retirees? That would be helpful to the committee.

Mr. Jackson: Would you be interested in the input as well, because that has a direct reflection on the retiree output?

Mr. McClellan: Sure.

Mr. Cousens: On point one, though I would not want to suggest it is the desire of any member of the committee that hospital employees become government employees, you do comment that you would not want to be under control of Management Board. Could you give me some of the reasons why that would be a problem to you?

Mr. Jackson: One of the prime reasons is that we feel, if we are under Management Board, we will be in the same position as other public service plans, and have to give full indexation. Since we are under the Pension Benefits Act directly, we have to be properly funded, and we could not afford it to begin with. There are other things. Our work force is quite uncharacteristic, quite different. There would be that big substantial difference. The prime differences in benefits are really the early retirement benefits under the public service plans and the indexation, which we do not have.

Mr. Cousens: Indexation in the way it is provided in the Ontario government, you mean?

Mr. Jackson: Yes.

Mr. Cousens: How would that cause a problem to you? Is it the funding of that indexation?

Mr. Robinson: It is our concern about our ability to fund to that indexation level.

Mr. Mackenzie: You would have to loosen the purse-strings on the hospital funding, obviously.

Mr. Cousens: That is a major concern. That is your primary reason for keeping apart?

Mr. Robinson: Our president reminds me that, just over two years ago, following a survey of our hospitals and of the desires of our members, we did propose an indexing system, based on a 70 per cent factor, and it was turned down by the hospital boards as being too costly. We have gone back to them again, although as we indicate elsewhere, we do support an ad hoc approach to the

pensions of retired employees on the basis that those who continue to be active members are, in fact, keeping up to the degree of inflation simply because it is a final earnings plan and, as their own salaries or wages increase, they automatically do get that benefit in an increased pension.

Mr. Brandt: Pursuing the same question for a moment, the problem of indexing is of major concern to this committee because of what ultimately becomes an inadequate pension, even if it started out to be adequate at some point. I believe Saskatchewan has introduced, maybe my colleagues opposite would know, some legislation where they have introduced a scheme of indexing based on excess interest.

Do you see no opportunity there whatever? Your brief says no, but is there no opportunity in regard to the excess interest approach that might be applicable to the whole question of indexing?

Mr. Jackson: The opportunity is there for using the excess interest approach internally, for the funding of the improvements, and that is really what we are doing, but we are not linking the benefit to the excess interest. The excess interest may not be there at any particular point where the need is there. Witness this past year. The markets have not been that good in 1981. Our overall return to the fund in 1981 is not going to be anywhere near as good as it was in previous years. Still we are looking at inflation over 1981 of 12 to 12.5 per cent, so the need is there, when you look at that specific year.

Mr. Brandt: Because of the built-in differential though between the rate of inflation and the usual amount that can be generated by investment funds in the marketplace, the two to five per per cent differential, that gap, the point has been well made by a number of groups and organizations that have appeared before us that you can stay ahead of inflation if you apply those funds against the employees' benefit. You are indicating that there is no opportunity there.

3:40 p.m.

I cannot understand why you close the door. I guess you have not closed the door entirely. You are saying it should be on an ad hoc approach. I feel there is perhaps some opportunity there for legislation that might make it clearer and to the benefit of the employee.

Mr. Robinson: There is a question as to the termination of earnings on a plan, excess earnings or capital losses or gains to be taken into the picture as well as interest per se. Certainly, if we look at running yields, and I am not as familiar with this as I would sometimes like to be, but if we look at running yields, certainly they tend to be fairly substantial but there are some substantial capital losses incurred, particularly in equities from time to time which have to be taken into consideration.

At any given period of time, you may not be able to generate the sort of income levels which might be legislated for use in improving benefits. It is an awkward question and I sympathize with

the idea of using it, as we all do, but we find difficulty in seeing how it could be applied on a consistent basis for the time ahead of us.

Mr. Brandt: Could I pursue that question of Saskatchewan with Mr. Bentley for a moment? Do you recall what the legislation was there? Was it not one per cent below the--

Mr. Bentley: You are talking about the return on contributions and where they set a certain level of interest to be paid. They have no concept in Saskatchewan of the excess interest approach at all. There is nothing in their legislation dealing with that. All they are saying is that, upon termination of employment, you are entitled to a refund, utilizing a certain rate of return, and they specify the rate of return but that is not the excess interest approach as we are discussing here.

Mr. Brandt: All right. I had another question in regard to the fund that you have at the moment. Do you have any idea without taking out that massive document you have there of what you have generated in terms of the return on your fund over the past reasonable period of time? Could you give us some indication of how successful that has been?

Mr. Jackson: Over the past six years about 12 per cent per annum compounded, of that order.

Mr. Brandt: So it has been rather good.

Mr. Jackson: Three per cent I think--I was speaking to our investment manager today--three per cent above inflation over the last six or seven years. When you say the last year, 1981 specifically, it was down.

Mr. Brandt: Sorry, I did not catch the comment you made about the rate above inflation. How much--

Mr. Jackson: Two or three per cent above inflation consistently over the last six or seven years; that is an average. We were below inflation in 1981 on a market basis.

Mr. Brandt: One year would not give you a good indication of how successful you have been but if you take it over--

Mr. Jackson: No. That is my point in the excess interest argument that it just does not apply from year to year to determine the benefit. Yes, you use it long term on an actuarial basis and say, "Yes, we will apply the excess interest." Now you may have too much one year but not enough the next year to meet what you feel is the need. I guess the worst example I could give you was in 1973-74 when the market crashed. The net return on the market was minus 17 per cent on the funds.

We have recovered from that well but for that year inflation was around seven per cent and there was certainly a perceived need for the pensioners at that point. What would you do, reduce the pensioners' income to correspond to minus 17 per cent which was 22

per cent below the actual assumption under the plan? It does not make sense.

The other thing is, whenever there is a change in inflation, the fund itself being invested in maybe five, 10, 15 and 20 year bonds, it takes us five or six years to react to that to bring its investment up. It is always behind the market by a good deal and your average pensioner is around age 72. He is long dead and gone before he will get the effect of that change. Likewise, if it ever happens, when interest rates go down, the pension plan will benefit for some period of time, then trail the market on the way down too, but it still will not meet the pensioner's need at the time.

Mr. Brandt: With your experience, and it is obvious you have a great deal of experience in this field, if we were to introduce excess interest as a means of indexing over your objections, which we may or may not do--

Mr. Robinson: You have that privilege.

Mr. Brandt: We have been known to do strange and wonderful things from time to time.

Mr. Robinson: No further comment.

Mr. Brandt: What kind of time frame do you think would be realistic from the standpoint of looking at the reasonable fluctuations of the market? If one year is not realistic, what would be? Do you have any comment on that?

It is not a trick question, I mean it sincerely. I recognize you are philosophically opposed to it, but if it does happen to come it would be of value for us to know what would be workable in the minds of people with your kind of experience in the investment field.

Mr. Robinson: We certainly said that the three-year lag puts it too far out of synchronization. Mr. McCaw, have you any thoughts on that?

Mr. McCaw: I would suggest that introducing the excess interest approach, first, I think there is not much difference between what the committee is saying and what the association is saying. I think the association is only saying that, to determine that perhaps a reasonable inflation protection for starters, might be 50 per cent of the consumer price index but I am just throwing a number out.

Actuarially, we could value the pensioner reserves on a basis that over the long term we would fully anticipate would provide through the excess interest concept that type of protection. But that is using the excess interest approach as a funding device, as an actuarial device which is quite different from saying, "Whatever the fund earns minus a given interest rate is what you are going to give somebody."

I think it has been pointed out that what the fund earns minus a given interest rate compared to inflation in any year could

be providing very little inflation protection or, in an unusual circumstance, perhaps 100 per cent or more of the change in the consumer price index in a year. That does not seem particularly reasonable, at least to the association.

In terms of implementing some form of excess interest legislation, I would suggest that, as far as the association plan is concerned, because of its very strong funding position, it could probably be implemented very quickly. Unfortunately, many private pension plans do not have the funding position of this pension plan and when one is talking about excess interest on pension fund assets, many pension funds do not have assets that cover 100 per cent of liabilities.

Perhaps they have assets covering 100 per cent of pensioner liabilities but they do not have sufficient assets to cover the liabilities for a large portion of their active group. So I would say for some poorly funded pension plans, however one defines that, there is nothing that could be done in even two or three years. It would not have a very dramatic effect on the cost of those plans.

Mr. Brandt: Two other questions if I might, Mr. Chairman: One of the major concerns I have and I think other members of the committee as well is the people at the lower end of the spectrum, part-time employees, those without pensions at all and the ones who we are attempting to cover in some way. Could you perhaps give us some indication of how you deal with those kinds of employees, where you make the delineation between full and part time, at what stage in terms of hours of work by week, month, year or whatever and address that question for a moment?

Mr. Jackson: We make no delineation. The plan has the provision for part-time employees to join the plan as groups. We do not care whether the part-timer works four hours, 18 hours or 24 hours a week. That is partly because of our reporting procedure. That causes no problem whatsoever administratively. We have had a few part-timers in the plan for many years, mostly senior people who go to part time for health reasons and that sort of thing.

Mr. Brandt: Excuse me, voluntary or mandatory?

Mr. Jackson: At the administrative level you mean? More or less voluntary. It is just sort of between the employer and the employee at that time. If he finds he cannot keep it up, we do not want to cash him out of the pension plan at age 63 or something like that.

It causes us no problem with part-time employees, mechanically or otherwise, because we are a contributory pension plan and we can therefore judge his proportionate benefits strictly on his contributions. It is not that difficult at all. We are not concerned whether he is 12 hours or 24 hours a week or even casual employment, that is, nurses who are called in just to fill in for a period of time like one, two or three shifts, on and off. It does not bother us one bit. It is a little trouble administratively but not that difficult. In noncontributory pension plans you might be in a different situation.

3:50 p.m.

Mr. Robinson: Mr. Chairman, remember that an arbitrated settlement for the nurses that came down in October provided for 14 per cent in lieu of benefits for part-timers who were, I believe, qualified as such under specific contract arrangements, but we have introduced this opportunity for part-timers as a group to be slotted in by the participating hospitals.

Mr. Van Horne: I was tempted to hop in with Mr. Brandt's question a few moments ago. I think also you touched on this point a little earlier, but I would simply like to ask, your second point, what would you consider to be reasonable protection against inflation? You say reasonable protection is desirable. Could you elaborate on that a bit for us, please?

Mr. Robinson: As I indicated earlier, Mr. Chairman, a couple of years ago we had suggested up to 70 per cent. That seemed to be affordable, at least in our view. It obviously wasn't as affordable in the view of others within the industry. I think a minimum of 50 per cent, but probably somewhere in the range of 60 to 70 per cent. There are many arguments presented that the consumer price index per se does not provide a true base for determination of costs because some of the factors that are in it do not affect the retired person. Fortunately, I am not yet in a position to find that out. I think there seems to be a general consensus that it is something less than 100 per cent.

Mr. Jackson: If I may comment, you must remember a good deal of the pension of an average employee's pension income is fully indexed and therefore we are just talking about the employer's piece on top in this question of how much difference should be made on the employer's portion. So 60 or so per cent through the employer effectively means closer to 80 or 90 per cent inflation protection for the low salary employee. For the higher salaried employees, proportionately less.

We have given ad hoc increases in the past. I believe there was a brief submitted to this committee that said we have not given ad hoc increases in the past. I would like to correct that. We have. We gave up to 40 per cent back in 1979 and we hope to do something else next month. Again, they were somewhere in the order of half of inflation, or a little bit better, perhaps.

Mr. Chairman: Thank you very much, gentlemen, for taking the time to appear before us. The dialogue has been very instructive and useful in terms of our report which we hope to bring forward before too long.

Mr. Ingram: We thank you, Mr. Chairman, for the opportunity.

The committee adjourned at 3:55 p.m.

SELECT COMMITTEE ON PENSIONS

ONTARIO MUNICIPAL EMPLOYEES RETIREMENT BOARD

BUSINESS COUNCIL ON NATIONAL ISSUES

THURSDAY, JANUARY 21, 1982

Morning sitting

SELECT COMMITTEE ON PENSIONS

CHAIRMAN: Taylor, J. A. (Prince Edward-Lennox PC)
Brandt, A. S. (Sarnia PC)
Cousens, D. (York Centre PC)
Cureatz, S. L.; Deputy Speaker (Durham East PC)
Gillies, P. A. (Brantford PC)
Haggerty, R. (Erie L)
Jones, T. (Mississauga North PC)
Mackenzie, R. W. (Hamilton East NDP)
McClellan, R. A. (Bellwoods NDP)
Riddell, J. K. (Huron-Middlesex L)
Van Horne, R. G. (London North L)

Clerk: Arnott, D.

Researcher: O'Mara, Dr. J., Legislative Research Service

Consultant: Bentley, W., Superintendent of Pensions, Pension Commission of Ontario

Witnesses:
From the Ontario Municipal Employees Retirement Board:
Bernardi, R., Member
Field, R. A., Board's Actuary
Reeve, A. W., Executive Director
Roberts, A. J., Chairman

From the Business Council on National Issues:
Damov, D., President, Travellers Canada
Jackson, S., Chairman, Task Force on Social Policy and Retirement Income; President, The Manufacturers Life Insurance Company
Riggin, P., Senior Vice-President, Corporate Relations, Noranda Mines Limited

LEGISLATURE OF ONTARIO

SELECT COMMITTEE ON PENSIONS

Thursday, January 21, 1982

ONTARIO MUNICIPAL EMPLOYEES RETIREMENT BOARD

The committee met at 10:07 in room No. 151.

Mr. Chairman: Gentlemen, for purposes of the record, you now have exhibit 167, Ontario Hospital Association, supplementary submission from H. G. Ingram, president; exhibit 168, committee research officer, summary of presentations on January 19, 1982, dated January 20, 1982; and exhibit 169, Ministry of Treasury and Economics, statistical data, dated January 18, 1982, from the pension policy unit of the office of the budget and intergovernmental finance.

We have with us this morning the Ontario Municipal Employees Retirement Board and, as you know, the brief there is entered in your binders as exhibit 66. Now, Mr. Reeve, I am wondering if you would care to introduce those with you and then we are in your hands.

Mr. Reeve: We have with us today Mr. Al Roberts, the chairman of the board. On my far right is Mr. Roy Bernardi, the immediate past chairman of the board. Behind us in the public area we have Mr. Bevan from Niagara, Mr. Burke from Windsor, Mrs. Lenore McIntosh from Thunder Bay, Mr. Don Schaefer from Waterloo, Mr. Malcolm Scott from Muskoka. We also have Mr. Al Field, our actuary. That is the group in attendance today, sir. The chairman will now take over.

Mr. Roberts: Good morning, ladies and gentlemen. Mr. Chairman and members of the committee, I would like to thank you for allowing the OMERS board to appear before the committee and discuss its views with regard to the report of the Royal Commission on the Status of Pensions in Ontario and the committee's interim proposals for change.

I will keep my comments brief this morning to allow as much time as possible for discussion of issues with the committee members. I am aware that other groups representing various members of OMERS have appeared or will be appearing before this committee. The board has received general agreement from most of the various organizations representing member employers participating in the system to the board's response to the royal commission report. However, it is quite possible, and a healthy situation, that you may hear views contrary to those of the board members. The board of OMERS made no comment with regard to government retirement income programs such as the Canada pension plan, old age supplement, guaranteed income supplement, and guaranteed annual income system.

We see the CPP/OAS programs as a base and the OMERS benefit as an add-on to augment the retirement income of municipal workers. This is not to say that these programs and their future directions

are not of significant importance to the beneficiaries, the pension industry and this committee. The board would urge those involved with the future direction of these programs to conclude their studies as soon as possible, because the present uncertainty makes it very difficult to develop long-term policies for employment pension plans. The board of OMERS is on public record as being opposed to the introduction of PURS, the provincial universal retirement system, particularly to the money-purchase feature providing pensions and the major disruptions proposed to existing employment plans that are included in the recommendation related to PURS.

OMERS was established in 1962 and came into operation on January 1, 1963. In the studies prior to the establishment of a single multiple employer pension plan for the local government sector, the most common form of pension plan was the money-purchase plan. As a matter of fact, the general legislation restricted municipal plans to this type, and there were numerous proposals and private legislation to allow for defined benefit plans. Many of the large municipalities had defined benefit plans through private legislation for a number of years prior to the development of OMERS. In the municipal sector, the inadequacies of the money-purchase agreements were recognized over 20 years ago, and it now seems ironical to those of us who have been associated with municipal pensions for many years that the royal commission's recommendation favours the money-purchase agreement.

Our particular argument with PURS is directed to the effect that it is proposed to have an existing defined benefit plan. In our opinion, the royal commission failed to recognize both the historical development of pensions in Canada, and the important role played by employment pension plans to date.

I would like to touch on one other aspect of the royal commission report that OMERS disagrees with before commenting on some of the positive features. The board disagrees with the proposed method of controlling public sector pension plans through the Management Board of Cabinet, and it takes exception to the fact that the commission was strongly critical of all Ontario public sector plans when the major criticism applies only to a few such plans. The structure of OMERS and its relationship to government has resulted in a prudently managed pension fund that has developed improved benefits over time, that is not in financial difficulty, that has not posed undue financial burdens on its members and employers, and that is the envy of many.

The board does believe an elaborate cost control mechanism is necessary since costs of a pension plan are most effectively controlled through benefit levels and salaries. One has to recognize that if one is to provide an adequate retirement income through a funded pension plan, be it defined contribution or defined benefits, the necessary funds must be provided where the ultimate cost for equal pensions will be the same. It is the opinion of the OMERS board that other much more satisfactory controls can be placed on public sector plans, and this whole area needs much more thought and discussion before implementation.

And now for some of the positive comments. The board agrees with the select committee's proposal regarding vesting and lock-in in general support of the royal commission approach. The board would ask that careful consideration be given to the rate of interest to be applied to the member contributions for the various refunds and transfers contemplated. An arbitrary rate could exceed the earning rate of the pension fund and would represent a significant additional benefit to terminating employees over that to continuing employees.

The board has indicated it is not convinced that an inflation tax credit as proposed by the royal commission is the right answer to inflation protection for pensions. The excess interest approach proposed by this committee has been adopted in principle by the OMERS board, and steps are now being taken to have this feature introduced into OMERS. While our actuary can elaborate more on the excess interest approach, it is the opinion of the board of OMERS that the use of an artificial low interest rate of three or four per cent to determine pension liabilities when the fund has been assuming six to eight per cent in actuarial evaluations adds considerably to the liabilities not only of pensioners but active members as well.

One can argue that deducting three or four per cent from current fund earning rates or some outside index, as some suggest, will not provide substantial inflation protection to existing and future pensioners. However, to suggest this can be done for no cost is to mislead, in our opinion. Any move in this direction must be gradual. The board is also of the opinion that an outside index should not be used but rather a rate of return based on the asset values used for actuarial evaluation purposes.

The committee may have heard that OMERS is a secret society that does not provide information to members and retirees. Since the inception of OMERS 20 years ago, each member has received details of the plan benefits, annual status statements, annual financial reports, and in the last five or six years, copies of the actuarial evaluation. The board fully supports full disclosures to members and will continue to do so.

The board of OMERS comprises 11 members appointed by the Lieutenant Governor in Council. Eight of the 11 members are employees of local government, two are elected municipal councillors and one is an Ontario civil servant. The eight employees include five union representatives and three management employees. The composition of the board is the reponsibility of the government. The board members have never made recommendations concerning the composition.

For a number of years, there have been requests to have a retiree represented on the board and, on occasion, one of the board members has been a retiree but has qualified for membership through other avenues. The inference that the present board members do not present the interests of the retiree could not be farther from the truth. The addition of a retired employee to the board would not, in the opinion of the board, increase or decrease the current board members' concern and interest in the needs of the retiree.

We would be pleased to discuss any of these matters with this committee.

Mr. Cousens: In regard to the extent to which the CPP should provide a base to establish a foundation for some retirement planning and not have PURS, do you feel the CPP is sufficient in what it is providing now? Should there be any revisions to it? Should it be expanded? Do you have any thinking as to what should be happening with the CPP?

Mr. Roberts: I think the board would certainly favour seeing the CPP expanded rather than see PURS introduced, although we do feel the CPP should be put on a funded basis. As far as we are concerned, I think you will agree, the CPP in our opinion is not a pension plan at all. It is just another social program.

Mr. Cousens: The only other question I have has to do with indexing. How would you suggest that people who are retired receive some kind of indexing to their pensions to meet inflation?

Mr. Roberts: I'll let our actuary, Mr. Field, elaborate on that point.

10:20 a.m.

Mr. Field: The thought that OMERS board has on indexing is, as Mr. Roberts said, along the lines of excess interest. By excess interest, they are thinking of excess interest on the actual fund earnings, not using some external factor, but excess interest on the fund earnings. As applied to existing pensioners, that would enable indexing to the extent there was excess interest over the current valuation interest rate. That would not cause any immediate cost impact on the fund since the fund is assuming only that interest returned. Any excess returns could be used to adjust the pensions payable to current pensioners.

However, OMERS has not stopped there. They have also looked at the possibility of using an excess interest over an interest rate that would be somewhat less than a valuation interest rate to determine what the cost impact might be. At this point, they are prepared to use excess interest over an interest rate less than the valuation rate, which would add to the amount of money available to provide indexed pensions or adjusted pensions for pensioners.

There is a cost impact, of course, as soon as you use a base interest rate of less than the actuarial evaluation rate, but through our investigations we have established this can be done without impacting on the contribution requirements of OMERS. In other words, we could follow that approach without having to adjust any contribution requirements of OMERS.

As Mr. Roberts said, this has to be a gradual process, a transition process. In addition to providing that kind of adjustment for existing pensioners, the same adjustment would be promised to existing active people, again without impacting on the contribution structure of OMERS. Longer range, the thought is the arbitrary interest rate that was chosen, the interest rate that is less than the actuarial valuation rate, could be gradually backed off and somewhere in the future maybe get down to the so-called real rate of return we see written about of three or four per cent.

Mr. Cousens: I appreciate that answer.

Mr. McClellan: Just so I understand clearly, we had the Ontario Municipal Retirees' Organization delegation before us yesterday morning. They gave us a brief that indicated a decline in the purchasing power of their own benefits. They expressed a concern, if I recall correctly, that there had not been inflation adjustment for three or four years because of the work of the royal commission. I assume from what you said that you have adopted the excess interest and are in the process of implementing or designing it in. Could you elaborate a little on that?

Mr. Roberts: I cannot elaborate at this time because presently we are in the negotiation process with the Treasurer of Ontario. As you are aware, we report to him and we are at this level right now, so I do not feel we are prepared to discuss it.

Mr. Chairman: If I might just clarify and comment for the record, with reference to the Ontario Municipal Retirees' Organization and their brief, they were here at 11:15 a.m. on Tuesday.

Mr. McClellan: Tuesday morning, yes. I assume you have to secure approval from the Treasurer for any changes you would incorporate?

Mr. Reeve: Provisions of the OMERS plan are contained in regulations under the OMERS act, so we have to go through the regulatory process for change as required. I might also add there was a three per cent ad hoc increase to pensions on March 1, 1978, and another four per cent on January 1, 1981.

Mr. McClellan: That still leaves them short 20-odd per cent in terms of the consumer price index. The other concern they had raised, and it is obviously related, is that you are in a position now of negotiating with a third party on behalf of the beneficiaries. That has to do with representation on the board.

You are not even in a position as a board of being able to negotiate directly with the OMRO constituency because of the relationship with the government and the Treasurer. Just so I am clear, what is your position? Are you adamantly opposed to an OMRO representative on your board, even a single representative?

Mr. Roberts: As you are aware, there are five union representatives on this board already. A good many of these gentlemen were used and so forth. Our feeling is that surely just because they are retirees, you do not think the unions and in a good many cases the employers forget these people. I think they are well represented.

I have sat on this board. This is my sixth year now. I have never seen anything occur that was going to harm the pensioner in any way. We have tried our best to come up with a solution. I think our biggest problem has been all the royal commission reports and now this committee sitting and so forth. There has been so much controversy going on we have not been able to see the guiding light

in which direction we should be moving. Certainly we would have loved to see the plan indexed, but the board members have a responsibility to see that we keep this plan in a funded position, which it is today.

Mr. Mackenzie: If I could have a supplementary to my colleague's question, that has not answered for me, at least, what difficulty you perceive with having a representative of the retirees on the board. They obviously are now organizing as a group. They obviously feel they want that kind of a voice. We are certainly into an age when, hopefully, participation and openness are one of the things almost everybody talks about, whether we actually do it or not.

I am not sure what the official position of the union is, but I would be surprised if there was opposition from the union nominees on the board. What reason do you have for saying: "Hey, no. We can take care of your needs. We don't need one of you on the board."

Mr. Reeve: He mentioned in his comments that the board has never made comment to the Treasurer or the government on the representation of the OMERS board, the composition, and I think that is the point. I think the point he was trying to make in his opening remarks was that the inference there has not been consideration of the pensioner needs by the existing board members is not true.

Mr. Mackenzie: I do not see that as part--

Mr. Reeve: Under the existing board--

Mr. Mackenzie: The concern is really the answer, though. The position is there is a group of people there, obviously a directly concerned group, who are now to some extent organized and want some representation.

I see it as the same kind of question that got us into some of the problems in the private pensions. Why the hell did they not react sooner to things like vesting? Why not take some initiative? If there is a problem or something you see as a problem, that is what I am trying to get at. If not, why not show some initiative and say, "Yes, you should have a representative on the board"? Why not as a board invite it or make the suggestion to the government?

Mr. Reeve: I think for a number of years there were retired people on the board and members of that organization. I do not think they were chosen by that organization but we have had retired members on the board through other avenues.

Mr. Mackenzie: Is the opposition then to an organized group per se having representation?

Mr. Reeve: I do not think there is any particular organized group represented on the board. The members are appointed by the Lieutenant Governor, however that is done. There are 22,000 pensioners in OMERS. I am not sure how many members there are at OMRO. I have no idea if that was in their brief. I do not know if they represent all of the pensioners.

Mr. McClellan: This is my final question. OMERS should be commended for providing some of the financial information, I guess principally to OMRO, and they provided it to us. We have had a great deal of difficulty even getting what should be, I really thought, fairly straightforward information, for example, the amount of pensions payable in any given year and the number of retirees in receipt of benefits so you can work out average payments for retirees and look at that information on a comparative basis.

10:30 a.m.

We have it for OMERS since 1970. We have it for absolutely not one other single plan. I am asking you these questions because you are the only ones who have had the decency to provide the information, which perhaps makes it a bit unfair. But on the level of benefit, in 1980 the average payment per retiree per year is, according to the figures that we were given on Tuesday, $1,841 per year, and it is a bit higher for 1980 current retirees, $2,726 per year.

Mr. Roberts: You have to remember OMERS is only 20 years and that is a baby in pension fields. A lot of these people who are retired were in pension plans prior to OMERS coming into being, and a good many of them never had pensions before. I do not feel this board is in the position where we are going to be able to provide adequate pensions for all these people no matter what happens unless the employer is prepared to get involved in supplementary agreements where they can pick up past service costs for these people. The vehicle is in place for them to do this.

It is the same thing, there is a vehicle in place within the act of OMERS. The employers can increase the amount of pensions payable to any one of their retiree employees any time they wish, but unfortunately it is not being used.

Mr. McClellan: By the employers.

Mr. Roberts: That is correct. Another problem is that when these members leave OMERS, where they are union members--I am using this as an example--the unions no longer have the right to bargain for these people. It is not like the private sector where the United Automobile Workers goes in and starts negotiating for their pensioners for increases. They are just forgotten people. They worked there 40 years. They got their gold watch. It is goodbye. Their benefits cease at that time and that is it.

Mr. McClellan: I suppose those of us who are relatively inexperienced on pension affairs, like myself, quite frankly, having been told repeatedly that the public sector pensions are the cream of the industry and just infinitely more lavish than anything one would expect to find in the private sector--

Mr. Roberts: This is not true.

Mr. McClellan: Obviously, it is not true. Despite the fact that the royal commission itself has repeated a number of shibboleths throughout the document, none of us and none of you, I am sure, would anticipate that anybody would live on $1,841 a year.

Mr. Reeve: Can I just clarify something? If you just take the total number of pensioners and divide it into the total amount of pensions paid in a year, you get an average. It is very misleading to use that average because OMERS has a couple of features that other plans do not have. We have immediate vesting. You do not require 10 years of service to get a pension out of OMERS, so we have all sorts of people entering the work force at very late ages and retiring at 65 with only seven or eight years of service and taking a pension.

We also provide pensions for part-time workers, and there are many of them in the plan. I am not sure of the exact number but there are close to 15,000 and their pensions will be related to their shorter period of service because they do not work full-time.

There are those two features, plus we have spousal benefits in there at half the rate of normal pensions; all of these things add up. I think in 1980 the normal retirement pension, the smallest one we paid, was $34 a year and the largest one was $30,000, so that it is all-over. Using an average is fine. We have not got the median figures. I wish we had them. It might be of more importance.

Mr. Mackenzie: From $32 to $25,368?

Mr. Reeve: From $34 a year up to over $30,000 a year. That is the range. It is all over the place. I have examined that in some detail for existing pensions under payment. Averages are awfully misleading.

Mr. McClellan: I know, and I had asked the OMRO people if they had the range and the distribution through the range, which they did not have perhaps, and I am not sure whether you have that--

Mr. Reeve: I do not have it with me.

Mr. McClellan: --easily available, but if it would be possible to make that available by correspondence to the chairman, I think that would be helpful so that we could get an idea of the median and also an idea of the distribution above and below both the average and the median.

Mr. Reeve: I will see what I can do for you. When pensions are based on service and salaries, it comes out at the end whatever those two combinations are.

Mr. McClellan: Right. The question becomes important to us when we are trying to assess the appropriate role of employer-sponsored pensions in the total mix. We are not just dealing with the fact that the majority of workers aren't even covered at all in employer-sponsored plans, but also the question of the adequacy of the coverage.

We have some data with respect to coverage per se, but almost no data with respect to the adequacy of pensions that are being paid to people who are actually in the fortunate minority who are covered, so any material we can get is helpful to us in trying to determine some of the other questions--for example, what should the role of the CPP be in the long run, or the public sector vis-a-vis the private sector.

Mr. Bernardi: Mr. Chairman, if I may make one comment on that, one of the problems that OMERS is into is that we seem to be blamed for inadequate pensions for municipal employees when a big cause of this is what happened prior to 1963 and prior to the implementation of OMERS. Without the benefit of a supplementary plan which picks up the past service, many of our retirees have gone off with short periods of service in the OMERS plan because we are a relatively young plan and we take some criticism for the fact there is a small benefit, ignoring the fact that there was no benefit before OMERS came into being.

We think that OMERS does provide a very adequate pension. However, it takes 35 years to achieve the maximum. We have only been in existence for 20 years. I think you have to keep that in mind when looking at the amount of benefit being paid to some of our members.

Mr. Riddell: I am sorry I was late arriving and maybe this has already been discussed, but I would be interested in knowing why OMERS has decided to go the way of excess interest to adjust pensions. To the best of my knowledge, it hasn't been tried in any other jurisdiction. Who was the author of this means of adjusting pensions? Do you find it is the fairest way? Maybe you could enlighten us on what the excess interest concept is.

I know from the questions that have been asked in this committee, and I know from talking to some of the members, we all have a different interpretation of what excess interest is when it is connected with adjusting pensions. Maybe you could start by telling us what your interpretation of excess interest is, how it works, and then tell us why you have decided to go that route.

Mr. Roberts: I will answer this in two parts. I will answer the first part and turn the second part over to our actuary. First of all, the only reason we are looking at the excess interest approach is we know we cannot afford indexing. We are running a funded plan. If you want to look at the teachers' plan, the provincial employees' plans and so forth, there is no concern about funding those pension plans. They are indexed. We just cannot afford it.

For the last four or five years we have been trying to come up with some type of solution. We came up with the excess interest approach because we feel if we continue to operate this plan on a funded basis it is the only possible route we can go. The board made the decision and we put our actuary to work and he can explain the mechanics. Mr. Field.

Mr. Field: I think it would be wrong to suggest there is a single author for the excess interest concept. I would say it was developed on the basis of theory by Mr. Pesando, whose articles I suppose you have heard of or are maybe familiar with. The theory there goes back to the premise that there is a real interest rate, real return on invested assets, and that anything in excess of the real return is due to inflationary effects. The real return is usually thought of as somewhere in the area of three or four per cent.

10:40 a.m.

Mr. Pesando's earlier articles developed the theory that in developing any pension plan an employer should be assuming only a real return, only the return of the real interest rate on his invested asset. That meant that any excess return coming from inflation should be available to adjust the pensions, protect the purchasing power, as it were. This theory evolved from the basis of a clean start where you didn't have to worry about what had gone on historically.

To take a big jump to the current situation--and there are all kinds of interpretations of excess interest and applications of excess interest--and talk about OMERS particularly, it appeared as though the option might be there for OMERS to join the supplementary adjustment benefits fund, which is the provincial legislation to which the teachers and the public servants belong, which is an unfunded program to provide indexing. The contributions are going in there at one per cent by employee and one per cent by employer, and those funds are supposedly being monitored by cash flow projections to determine whether they need to pump more contributions in--in other words, whether the fund is going to run down or run up, and so on.

The key point here is that it is a totally unfunded operation. It is relying on the contributions of future members to pay the indexing for the current retirees. The OMERS board investigated the application of that approach to the OMERS group and felt it was the wrong way to be going. They wanted to operate on a funded basis, as Mr. Roberts has said. Once you make the decision that you want to operate on a fully funded basis, you have to look at your available assets. Currently they have liabilities for accrued pensions and the liabilities have been determined, not just using this synthetic real rate of return at three or four, but reflecting some of the inflationary part. So the valuation interest rate has ranged from six to eight per cent.

That being the case, the excess interest concept simply said that if we do have excess interest returns, that is money we are not counting on and that is money we could dedicate to adjusting pensions. In fact, that is where the money for the adjustments that have been made to OMERS pensions in the last 10 to 12 years has come from--from excess interest earnings, at least in large part.

You should keep in mind the adjustments that have been made to date compound to something in excess of 50 per cent. In other words, pensions have been adjusted at a compound rate that now increases those pensions by 50 per cent. Those increases, as I say, have come largely from excess interest returns. So applying this concept on an ongoing basis and being willing to dedicate the excess interest of the future to adjusting pensions, OMERS decided they should follow the excess interest application that I explained a little earlier. Were you here at that time?

Mr. Riddell: No, I was late getting in.

Mr. Field: Then to repeat just briefly, the excess interest thought is that it should be interest in excess of the rate that is used in determining liabilities; in other words, interest in excess of the actuarial valuation rate.

You could use that without any immediate cost impact on the fund. The impact, as far as cost is concerned, is that you would not then have those excess interest earnings to do other things with in the future since you have now dedicated them to adjusting pensions, and OMERS was quite prepared to go that way.

They went one step further in investigating whether they could use a bottom-line rate of less than the actuarial valuation rate, and they have taken that step as well. So they are prepared to back off from the actuarial valuation rate and use excess interest over a rate that is less than the actuarial valuation rate. We determined that could be done without requiring any change in the current contribution structure.

On the longer range, the thought is that over time the base rate that is used could be gradually backed off until it could get down to something like three or four per cent, the real rate of return. But this is going to have to be done over a transition stage, unless a decision is made that they are willing to look at an unfunded liability, and then they have to find someplace to get the money to fund that liability.

Mr. Riddell: So the excess interest is based on a guideline and that guideline would be what--long-term Canada rate, or what are you using as a guideline? I understand your actuarial rate, but in order to get that three per cent from an actuarial rate of six per cent, what are you basing the nine per cent on, in order to give you that excess interest of three per cent?

Mr. Field: The excess interest concept involves two rates, that actual return being experienced, and then whatever base rate you choose. The base rate is chosen arbitrarily--chosen at a rate that, as far as Ontario municipal employees' retirement system is concerned, they can use without impacting on the contribution structure.

That would be a fixed rate which could be adjusted presumably downwards, again arbitrarily, as it became possible to do so. The top rate is the actual rate of return on the invested assets, and OMERS has detailed investments in its portfolio and is getting returns, which can be measured. The actual investment return would be calculated on the same bases by which the value of the existing assets at any particular time is taken, so there is a complete linkage between the value of assets used for valuation purposes and the excess interest that would be used for purposes of adjusting pensions.

Mr. Roberts: If we had this vehicle in place for this year, for example, if we had increased pensions, say, January 1, we probably would have been looking at an increase of roughly about four per cent of pensions.

Mr. Riddell: How far short is that of the pension adjustment that would be made in connection with funded pensions?

Mr. Roberts: It's quite simple. If you are looking at the provincial pension or the teachers, theirs is eight per cent, so we would have been four per cent under. The big difference is that was funded.

Mr. Field: The teachers' or the public service plan that Mr. Roberts refers to is the Superannuation Adjustment Benefits Act basis, and the reason they are eight per cent is that their program follows consumer price index increases with a cap of eight per cent. The eight per cent is their cap this year.

Mr. Williams: I have two matters I would like to pursue with our witnesses this morning if I could. First, in your brief dealing with the matter of investment--I do not know whether Mr. Roberts wishes to answer this, or whoever--you express some concern with regard to the fact that the direction being taken by the royal commission is to limit investments to Canada. Yours is not the first organization to express the view that this would somehow impede the flexibility of your investment portfolio. We discussed this at some length yesterday as well, and it was discussed in our earlier sessions last year.

I would be interested in knowing what your present portfolio is relative to foreign investment, what your experience has been and why you feel that somehow your investment portfolio would be put in a disadvantageous position, if I may use that term. Personally, I find that difficult to understand when there are so many investment opportunities in this country, as I see it.

Mr. Roberts: I do not, sir, but I will let Mr. Reeve answer.

10:50 a.m.

Mr. Reeve: We are limited by federal legislation to 10 per cent of the assets being outside of Canada, so there is a limit right now. We have maximized the use of that. We look at diversification, we look at maximizing rates of return, and if other markets are performing much better than the Canadian market, which some of them are today, then we would like to utilize those markets. Our role is to maximize the dollar contributions through investments over time, and any restriction does impede that at times. There might be times when we withdraw from foreign markets and put it all into Canada. The bulk of our foreign is in the US, but we do invest in the Pacific, in Europe. We are really just seeking opportunities to invest money.

Mr. Brandt: On that point, I wonder if Mr. Bentley could clarify. Is it 10 per cent of the assets or 10 per cent of the return to the fund?

Mr. Bentley: You can go higher, but you are going to pay a penalty if your income is higher than 10 per cent, which is again our rule. So it effectively limits you to 10 per cent of the total assets.

Mr. Reeve: And it is a moving 10 per cent because our market values can change tomorrow, so we are constantly watching. We have to measure that almost daily to ensure that we are not over. If you are over, your penalty is equal to the amount you are over. So it is a fairly substantial control.

Mr. Bentley: There is a substantial penalty if you go over on your return, on your invested assets that are held in the foreign markets.

Mr. Brandt: Did you not indicate that was one per cent a month or something of that nature?

Mr. Bentley: No, I cannot remember what the rate is. Al, what is it?

Mr. Reeve: Off hand I could not give you the specific figure.

Mr. Brandt: But it is enough to negate whatever advantage you might pick up with the foreign investment if the market in Canada is particularly soft, say, at a given time.

Mr. Reeve: We just have to stay within the limits and we have to be watching it and withdraw from those markets as quickly as possible if we are going to go over. It is almost impossible to stay at the maximum limit because the market value is changing every day, so you are really in difficulty.

Mr. Haggerty: Would you prefer lifting the 10 per cent limit then?

Mr. Reeve: I think we are objecting to the royal commission saying there should be no investments outside of Canada. But what that limit should be--I would like not to see it change from the present 10. I suppose we would like to see it go a little higher because we like to have the freedom and diversification. If the opportunities arise, we do not want to lose them; that is all. We see our role primarily as trying to maximize the dollar contribution over time, no matter how we do it. We do not want to put all our eggs in one basket.

Mr. Haggerty: Would there not be some adverse effect if you raise that 10 per cent to 15 or 25 per cent? Then capital is leaving Canada and that is one of the problems that is creating the high interest rates now--capital leaving Canada. It is not used for investment here in Canada.

Mr. Reeve: I do not disagree with that philosophy--

Mr. Haggerty: You are turning around and you are borrowing back from the other side again. You are investing offshore someplace else and then the first thing you know the government is running to the Americans or to some other source to obtain cash flow to come in here to help keep us going.

Mr. Reeve: If you take that point of view as to what investments pension funds should have, I can see why you would restrict them to Canada, maybe Ontario. Our role is to maximize the dollar contribution and we do not like those restrictions on us. We have to answer to our members and our employers to do the best we can and restrictions make it difficult sometimes. But if you take the point of view you are taking, that you are looking at the

overall economic position of Canada and the flows of money, you could very well come up with the position that pension funds should be restricted to Canada. You might even decide in Ontario that some of it should be restricted to investment in Ontario. We do have examples of cases of restricted investment.

Mr. Williams: I gather your investment pattern has cnanged somewhat over the years, from looking at your letter of August 19, where you indicate that from the early years, 1963 to 1975, you invested entirely in special nonmarketable provincial debentures, continued to invest there and in the capital market securities from 1975 to 1978, and then shifted dramatically from 1979 on into the capital market securities. Looking at your annual 1980 report, in your non-Canadian equity investments, you mention a great number of them are in the US.

The types of investments you have made apparently are in individual stocks in the fields of consumer products, computers, tobacco, financial services, energy, merchandising, airlines, photography, conglomerates and industrials, all of which I guess are maybe not as readily available, but nevertheless I would assume are available in Canada as well. So I suppose that you still would have a considerable degree of flexibility to invest in those sectors of the private sector within Canada if you were limited, but you perhaps might have to do a little greater in-depth searching out of the appropriate securities, whereas in the foreign field you have a broader field to work in. I presume that's probably the one thing that would curtail you to some extent, but wouldn't necessarily disadvantage you.

Mr. Roberts: If you are looking at your personal portfolio today and you are investing in equities, would you be putting your own money into the Canadian equity market at this time? I don't think I would.

Mr. Williams: Possibly not.

Mr. Roberts: We are looking at a cash flow this year of approximately $600 million. We have to find somewhere to put this money.

Mr. Haggerty: Municipal bonds are paying pretty good right now.

Mr. Roberts: We have some money invested in municipal bonds, but we have to have a balance in our portfolio. We can't put all our eggs in one basket.

Mr. Williams: They are marketing some good energy issues out in the west.

Mr. Roberts: We are involved in searching for oil in the west, sir.

Mr. Reeve: We actually own oil and gas wells in the west.

Mr. Williams: One of the most secure investments these days, I would think.

Mr. Roberts: You have come on a good point. I think perhaps something this committee could take into consideration is the impact that the pension funds could have in the equity market in years to come. As a board member, I was personally concerned with the issue involved, for instance, with voting rights in companies we are involved with, proxies and things of this nature. We limit ourselves. The OMERS board will not take any more than a 10 per cent position in one company. I do not want to see OMERS, I wouldn't want to see any pension fund in the Ontario situation, moving in the direction that we are seeing taking place in Quebec through their Quebec pension fund and so forth in the credit union movement in Quebec. I think that is very, very dangerous indeed.

We are talking about an awful lot of dollars in just OMERS alone if we ever took the teachers' plan or the provincial employees or whatever it may be and started going to the money markets for that type of money. I think it is something that would have to be monitored very closely as to what could happen.

Mr. Williams: I would like to come to perhaps a little more sensitive area dealing with the reaction, understandable I think, from the different public sector groups that have been before us. I should say the public sector employer pension plan groups that have been before us, including yourselves, in the reaction to part four. I guess your groups have taken it as a form of criticism from the royal commission, although I don't see it necessarily in that light, but because of the defensive response that you have seen the need to make to their assessment--I see it as assessment of the situation rather than criticism--of the fact, by and large, the public sector plans have historically developed into richer types of programs and plans than you will find in the private sector.

I don't think there is any criticism of what you have achieved. I think it is rather a compliment in a way and I think you should be complimented. Historically, I don't think anybody has quarrelled with the reasons for it occurring, at least none of the groups that have come before the committee to date. I think it is understandable.

I sense from the groups who have set up a defensive reaction that they almost feel threatened by the fact that there might be a central agency or cost control mechanism established.

11 a.m.

With regard to your own situation, I think on page 22 you comment on that and you state, if I might just quote in part to get to the real point here, which I would like you elaborate upon if you would, at the bottom of page 22:

"As an apparent outflow from the concern for parity with the private sector is a mammoth process of cost control. Again, the commission appears to be looking for a solution that may well only apply to a few public sector plans, notably the public service superannuation fund and the teachers' supernnuation fund, which both have a high employer cost, are underfunded and have escalated

benefits and unreduced early retirement. The many recommendations on cost control and intervention by Management Board of Cabinet in the affairs of public sector plans appears to be a 'scatter-gun' approach that is applying the solution to all plans because of an isolated problem."

With that preamble, my question is do you really feel there is no merit in the principle of cost control? You suggest that if cost control was applied, it would establish a scatter-gun response when, in fact, if cost control was imposed, would it not prevent the isolated problems you have identified from becoming general problems? Is that not where the scatter-gun effect would apply if it was left open ended and there was not some genuine effort made to establish some effective cost control?

Surely it is not going to take away from any of the existing plans, nor do I suggest that it would somehow impede them from improving upon what they already have. Can you really criticize government for wanting to have some form of meaningful and effective cost control? In principle, to me it sounds sound from a business point of view.

Mr. Field: Certainly we are not going to sit here and suggest that we would not want government to have cost control. That would not be a proper stance to take. But when we are talking about pension plans, I think one thing we have to recognize is that when all is said and done, the actual cost of a pension plan will be the total benefits that are paid out of that fund--nothing more. If a plan decides it is going to pay $1,000 of benefit, then the actual payment of that $1,000 will be what that plan has to do.

When we talk about costs, we tend to think in terms of the contributions that are going in from time to time, and those are not really the costs. Those may be perceived to be costs, but what every pension plan is attempting to do on a defined benefit plan is to produce certain benefits and, no matter what the contributions are that go in from time to time, the actual benefits paid out will be what that plan costs. So when you talk about cost control, what you really should be talking about is the benefit side, not the contribution side.

There are various actuarial evaluation methods; there are all kinds of assumptions involved. So the contribution levels that may be made from time to time for this plan as compared with that plan can be totally different, and that is really not the issue here. If the government wants to exert cost control, it should be looking at the benefits that are being promised and how they are being provided, and that ties in with the investment return. I am sure you got the message that the OMERS board is anxious to maximize its investment return because for every dollar it makes by way of investment return, it is one less dollar received from direct contribution.

Mr. Williams: So then you do not really disagree with the principle of cost control; it is a question of the interpretation of what kind of control it is to be or how it should be applied.

Mr. Field: It is a question of application. If I can hark back to an earlier statement that was made regarding public sector plans being the cream of pension plans, I think it is fair to say that public sector plans, including OMERS--and we probably cannot generalize--have fairly generous benefits as compared with the whole cross-section of private sector and public plans. Public plans do tend to provide among the highest benefits.

At the same time, we have to look at the employee contribution that is required. Many private plans, plans provided in the private sector, are noncontributory, so there is no employee contribution. Again, it comes back to the question of what is cost and what is cost control. You have to look at the benefits that are being provided and how much the employee is providing toward the ultimate cost of those benefits.

Mr. Roberts: The major problem we have is that we hear from our members that they cannot understand something, and it is very difficult for me or any of the board members to explain. I will use the boards of education as a prime example. You can have two people working in supervisory positions, say, as superintendents, in the board of education. One was a prior school teacher and one was not. They are both paying the same rate of contribution--seven per cent offset by CPP. When the time for retirement comes, the chap in OMERS has to work through to age 65. He walks out of there and just hopes the OMERS guys will be a good bunch and every once in a while slip him two or three per cent.

The other chap in the same position was a former school teacher. He walks out with an indexed pension plan. First of all, he can walk out with a 90 factor; when his age and service equals 90, he walks out of there. He receives an indexed pension plan up to eight per cent per year and he is paying the same rate as the chap in OMERS. Naturally it is very disturbing to our people. I sit there and say, "We are running a funded plan; they are not. We are doing the best we can." It is a pretty hard thing to justify sometimes.

Mr. Bernardi: In terms of cost control, one of the things that concerned us was we were locked in with the teachers and the provincial government plan. As we said to you this morning, we are a fully funded plan. We are on a sound basis and don't intend to go beyond that. If there is a defensive reaction, it is more a matter of resentment that we are lumped in terms of needing cost control when we feel over the years we have exercised that cost control.

Mr. Williams: Certainly your fund is exemplary as far as being a fully funded plan. Everybody looks to you for--

Mr. Bernardi: I think that is the impact of their comment that we took exception to, not that there should be cost control.

Mr. Mackenzie: I am afraid (inaudible) Suncor or some of those jets.

Mr. Williams: We always get silly comments sooner or later.

Mr. Roberts: Our only comment, sir, is that we have our own oil wells.

Mr. Gillies: Like Mr. Riddell, I came in late from another meeting, but I wonder if during the early part of the meeting the question of pensioner representation on the board was raised at all? We had a group of your pensioners in to see us on Tuesday and they were quite concerned--and I think it quite consistent with our recommendation in the interim report in the fall--that you might consider employee or pensioner representation on your board.

Mr. Chairman: That was raised.

Mr. Gillies: That was raised.

Mr. Bernardi: Mr. Chairman, if I may just make further comment on that. I have a feeling there may be an impression here that the OMERS board is resisting the addition of a pensioner representative to its membership. That is not the case.

Mr. Chairman: Certainly that was not the chair's perception of it.

Mr. Bernardi: We have not taken a position one way or the other as to who will be on our board. That has been defined in our legislation. There was also a suggestion that maybe we should be progressive and recommend that. The problem we get into with that is there are a number of groups, both union and employer groups, who are not represented on the OMERS board. Do we start then, as a board, deciding which of those groups has representation?

Mr. McClellan: Just so that I understand, are you saying the ultimate decision rests with the government?

Mr. Chairman: It appoints the board.

Mr. McClellan: I just wanted to make sure we understood that.

Mr. Mackenzie: I am presuming, though, that the government listens to board recommendations or advice.

Mr. Bernardi: The board does not make any recommendation on its board members. We don't even know who--

Mr. Mackenzie: Not on board members but if there should be an enlargement or decrease in the size or if it would be beneficial to them, it doesn't mean you can't--do the rules say you can't?

Mr. Bernardi: No, it doesn't say we can't, but we never have. I am not so sure we want to.

Mr. Chairman: Does that exhaust your problems?

Mr. Gillies: I think you have answered all my questions.

Mr. Roberts: I would make one comment, sir. Since OMERS came into being, from what I have seen, to be quite honest with you, there has been very little political interference. Most board recommendations have been adopted by the government. If they wish to question us on some of our recommendations, I certainly think that is their job to do so. They may not always agree with them and sometimes we don't always agree, but through negotiations and some compromise, we have been able, in my opinion, to run a fairly successful pension fund.

11:10 a.m.

Mr. Gillies: Just like all our boards and commissions, I might add, Mr. Chairman.

Mr. Mackenzie: Well, we hope so.

Mr. Gillies: I have another point I should like to raise, gentlemen, and again I apologize if this did come up already. The pensioners pointed out to us that if you refer to the table that they sourced for us on the adjustments to pension in pay, the adjustments would seem to be less frequent and smaller than they were prior to 1976, and this, of course, was a concern to them. In their brief they quoted to us from your annual report in 1979. That quote noted that you had, to all intents and purposes, put a moratorium on adjustments for a period of time until you saw what the recommendations from the royal commission were. The point the pensioners made to us was--

Mr. Chairman: Mr. Gillies, I hate to interrupt you, but that question was asked as well. The witnesses understand the question.

Mr. Gillies: Fine. Well I will check Hansard then and get your answer. Thank you very much.

Mr. Chairman: You see, it pays to be on time.

Mr. Gillies: I can't say, "Great minds think alike."

Mr. Mackenzie: Are you in with the wrong group?

Mr. Chairman: Mr. Mackenzie, did you have a question?

Mr. Mackenzie: I have a point, more from curiosity than anything else. You made a fairly strong statement. I do not necessarily disagree with it, but I am really interested in why you said that you would not want to get into a position of more than, I gather, a 10 per cent interest in an outfit, or to go the Quebec route because of whatever dangers you perceive in that. Just exactly what is it that bothers you about the Quebec situation?

Mr. Roberts: I would have to answer this as an individual; and I would say I just do not want to see government becoming more involved with business. If you look at a pension plan like OMERS and the other plans we were referring to, technically they are government, and I think it is very dangerous.

I am Anglo-Saxon. I only have to look at what has happened in Great Britain. If you are asking my opinion, I am afraid that this country is on the same course that they have taken, and I think we are seeing the disastrous results of that today.

Interjection.

Mr. Mackenzie: We could point to potash and release some very favourable results too. I take it you disagree with putting our money into Suncor as well then.

Mr. Roberts: Someone was asking what my political views were once, and my comment was, "I am a right-wing socialist."

Mr. McClellan: And they are all over the place.

Mr. Chairman: Anyway, I guess that is an elusive answer, Mr. Mackenzie. That defies debate.

Are there further questions? If not, I want to thank you gentlemen very much for coming forward this morning. It has been, I think, very instructive, and assists us in our deliberations and determinations.

Mr. Roberts: Thank you very much, Mr. Chairman, and members of the committee.

BUSINESS COUNCIL ON NATIONAL ISSUES

Mr. Chairman: Our next delegation is the Business Council on National Issues, and Mr. Syd Jackson is the chairman of the task force on social policy and retirement income.

Mr. Jackson, did you have a brief?

Mr. Jackson: We will have one for you. We do not have one this morning.

Mr. Chairman: All right. That is fine. Would you mind introducing those with you for the record.

Mr. Jackson: Mr. Chairman and gentlemen of the committee, we are pleased to be here this morning. I am Syd Jackson, the chairman of the business council task force on social policy and retirement income and president of the Manufacturers Life Insurance Company. My colleagues here are Dan Damov, on my right, president and chief executive officer of Travelers Canada, and on my left, Peter Riggin, senior vice-president, Corporate Relations, Noranda Mines Limited.

Before I start making comments, let me just tell you a word or two about the business council. The business council consists of the chief executive officers of some 140 Canadian corporations. It was formed in 1976 as a national organization and is a result of growing interest among business leaders in making an effective contribution to the development of public policies and the shaping of national priorities.

The related roles of the three multi-industry associations, the Canadian Chamber of Commerce, the Canadian Manufacturers Association and the Conseil du patronat du Quebec, is recognized by including leaders of each of these in our policy committee, which is sort of the board of governors.

This ensures close communication and co-ordination of all of these organizations. I think the distinctive feature of the business council is that it can only be represented by the chief executive officers in the meetings and this provides the broad perspective needed for constructive dialogue. That is the business council.

I understand your primary interest today is in the deliberations on expansion of the Canada pension plan, the PURS plan and public sector pensions. I would like to say something about the first two points and then make one or two comments on some of the recommendations that you made in your first report.

So far as expansion of the CPP is concerned, we are opposed to it, which I guess is no surprise. The CPP is largely financed on a pay-as-you-go basis and, as a result, does not accumulate savings for investment comparable to the private plans. We believe that the employer and employee contribution to private pension plans and other personal retirement programs are a very important source of investment capital for the development of Canada's economy. A large proportion of our new capital, particularly the long-term capital, is established and flows through pension plans. If the CPP is expanded, I think there is a real danger that the money that flows through to the provinces may be a source of temptation for provinces to be less restrained in their spending.

As I mentioned before, the expansion would inhibit the growth of private pension arrangements and limit their ability to generate funds to meet Canada's tremendous need for capital. We feel that in the years ahead, the next decade, there are going to be tremendous needs for energy, transportation, housing and so on.

Some who have argued for expansion of the CPP have said that the contributions should be invested in the private sector through an arm's length form of government agency. That would be a fully funded or a higher funding of the Canada pension plan and then give it back to the private sector to invest. We believe this would further concentrate control of Canada's capital flows. We have already seen where that has been done in Quebec and there are real concerns that the Quebec government is now trying to influence the investment policy, so we are very concerned about that.

We also believe in the need for diversity and balance in the source of retirement income. Already a large part of retirement income is borne by governments through such plans as the CPP, OAS, GIS, spouse's allowance and Ontario's Gains and that sort of thing. A major expansion of the Canada pension plan would severely reduce the diversity and cause future generations of retiring Canadians to become almost entirely dependent upon governments for their income. Such a dependence entails significant political and social consequences. Apart from this, there is the major question of whether it is good social policy. Expansion of the Canada pension

plan involves very large subsidies. These subsidies are mostly going to the more affluent in our society. If you are earning above the average industrial wage, you get the maximum subsidy. If you are unemployed and the most in need, you get no subsidy.

11:20 a.m.

There has been a suggestion that the CPP be expanded and there be a contracting-out provision, as there is in England. The only basis on which that could work would again be a fully funded pension plan and the costs under the private plan and the CPP would have to be comparable. That is only through a fully funded plan. We think this would be completely undesirable. In fact, in Great Britain they are having difficulty working with it even though it is a mature plan in the government sector.

The future costs of CPP are a matter of some concern. Not only is there the demography, but the future contribution rates, just given the existing plan, are going to rise significantly as the present plan matures. The cost will go up to around 10 per cent by 2030 just to pay for the current levels. In looking at those costs, you must also realize there is old age security, which adds a cost outside of the CPP, and when those two are added together it is a significant cost.

Expansion would increase still further the burden of costs on succeeding generations and could lead to serious social intergenerational conflict. In private plans, on the other hand, the funding regulations require that the cost increases associated with improvements be recognized immediately. This requirement imposes considerable discipline upon plan sponsors and employees since they also must make the additional contributions to meet the cost of improvements.

If we look at the social security systems in other countries of the world, a number of them are having difficulty. I imagine you are all familiar with the problems facing the United States, where the government has increased the benefits without appropriately increasing the contributions, and there is a major conflict in Congress now as to how to rectify that situation. Similar problems are arising in Europe, where we have a more mature plan and we see a number of financial problems there.

We do suggest two improvements to the CPP. I think these are along the line your committee has already suggested. They have significant cost implications. First, we think the yearly maximum pensionable earnings should be increased rapidly to the average industrial wage. We also think you should consider raising that not to the average of the last three years' AIW but the current AIW. If that were to be done right now, this would increase the benefit by around 29 per cent.

The second proposal would be that the CPP should adopt the Quebec pension plan dropout provision for looking after young children.

So far as the provincial universal retirement system is concerned, our position would be as follows: First, we encourage legislation to improve vesting, portability, survivors' benefits and inflation protection in private plans and suggest tax incentives to promote the installation of pension plans by small employers. If after review and evaluation the effects of new legislation still point towards the need for mandated coverage, further studies should be undertaken to determine the best approach. The business council believes the coverage issue is important but it needs more research and a great deal more discussion before binding decisions are made. Maybe we can discuss this in the question period.

If further compulsion is necessary, the business council would favour some form of mandatory pensions to be offered in the private sector. In other words, mandatory pensions if neccesary but not necessarily mandatory pensions.

The challenge, we feel here, is to work with governments and small business groups to get a better consensus. The main thrust of the business council at this stage is to encourage reform in existing private plans so as to: (1) improve the vesting and portability, which would also encourage more employees working for employers with pension plans to elect to join the plan; (2) encourage small employers voluntarily to install private pensions; (3) ensure some measure of inflation protection to retirees' pensions; and (4) bring women into the mainstream of private pension schemes, both as surviving spouses and as employees, through the improved vesting and portability, and by encouraging coverage of part-time workers.

Mr. Williams: I'm sorry, what was number one there? I missed that.

Mr. Jackson: If you improve the vesting and portability, we think that would also encourage more employees who work for employers with plans to elect to join the plan. In other words, if an employee thinks he is going to stay with an employer for only five years he will say, "All that I will get back when I leave is my own money with a relatively poor rate of interest, so why should I join the pension plan." But if he knows, as your committee recommends, that after five years he can get an equal amount from the employer, he would get back a good rate of interest and he could invest that in a locked-in RRSP, I think a lot more people would elect to enter those plans.

Those are the points we have to talk to specifically. I might just elaborate a little on the coverage issue and on the excess interest approach.

As far as coverage is concerned, the business council agrees with the statement in your report that coverage remains contentious. Although it is frequently said that about half the Canadian work force is not covered by such plans, the significance of this statistic may well be questioned. In this grouping is the working poor, whose income in retirement, from OAS, CPP and perhaps GIS, will reasonably replace working income.

In addition, many in the grouping have not yet met eligibility requirements, are secondary wage earners who perceive no need for pension coverage, have other savings programs designed to provide for their retirement or have negotiated higher wage settlements in lieu of pension.

Many of those who are not yet covered are employed by small business. Although we in the business council cannot speak on behalf of small business, we recognize that the cost to small business owners of providing pension benefits and the difficulty of administration are obstacles to them providing their employees with coverage. We think a combination of government and private initiative will be needed to confront these problems.

As I have said before, there have been so many studies on pensions in Canada it rather astounds me that this area of coverage has not been well researched. The best research that I am aware of was done in the United States for the President's commission. They took a very large sample to determine what the characteristics of the covered and uncovered workers were. I think there is a need for us to do something like that in Canada and I think there is a need for more discussion on the issues so that we can reach a consensus, as I think we have, on many of the issues your committee has already reported on.

Mr. Williams: Do you feel that President's study would be relevant to our situation here?

Mr. Jackson: It would be interesting for you to look at that, but I do not know that you have the time to do it in your time frame. What I have been recommending to the federal government and to anybody I talk to is that sort of a survey should really be done to get a better feel for the characteristics of the covered and uncovered workers. I do not think you can get those out of Statistics Canada.

Mr. Chairman: I might comment that some extensive work has just been done through the Ministry of Treasury and Economics. We have just received some of that in the last two days. You may find it interesting when it is eventually published.

Mr. Jackson: I would. It is of great interest to us.

Mr. Chairman: From what I gather, it is one of the more intensive, exhaustive and perhaps enlightening studies to come to our attention.

Mr. McClellan: Where is that?

11:30 a.m.

Mr. Chairman: It is exhibit 169 in the material that has just been distributed. You remember Mr. Stouffer has indicated that he would furnish us with some of the information that would eventually be in published form. We have maybe a partial preview which has now been distributed to committee members. It may be very interesting in terms of this coverage problem, which I think is fundamental in terms of those advocating the PURS program, for example, and enrichment of the Canada Pension Plan.

Mr. Jackson: I agree. You have to know what the situation is before you can intelligently advocate one position or another. Beyond that, it is almost a philosophical debate as to how far you have to legislate in areas and how much are you willing to leave it up to an individual's choice.

The only other point I would like to make a comment on is the excess interest approach. The business council supports the committee's recommendation that the Pension Commission of Ontario proceed with the development of legislation utilizing the excess interest approach with a phasing-in period to ease the cost impact.

We recommend that the legislation apply to amounts of pension relating to earnings up to the average industrial wage. The importance of providing pensioners with some protection against the erosion of their pension is evident in this period of prolonged high inflation. Whereas many employers, probably most of our members, make adjustment to pensions on an ad hoc basis, a very sizeable number of employers do not. This situation is perceived as socially unacceptable. We believe our recommended excess interest approach is workable, practical and appropriate because it gives the pensioners who need it most the use of the inflationary component yield on the funds related to those pensioners.

On the question of cost, we recommend that legislation with respect to the excess interest approach apply only to pensions based on earnings up to the level of the average industrial wage and only to pensions that are earned after the legislation is passed. We believe that retroactivity of the excess interest approach must be on a voluntary basis. Thus the legislated cost will be minimal initially and will increase slowly as employees affected by the legislation retire.

It should, of course, be realized that high investment yields are already being put to good use to offset higher pension costs caused by inflation, induced wage and salary increases. Thus the use of part of the high yield to protect pensioners represents an overall increase in pension costs to the employer. I would have to say this is the most controversial area. I would not feel we have everybody in our organization supporting this, but as a council we do support that recommendation.

Mr. Haggerty: Have you considered perhaps expanding that into the areas of the private insurance schemes that would provide some form of retirement plans for an individual who over the years bought an insurance policy for retirement purposes? I mean the indexing of the interest rates over the years. Have you considered that in your business at all?

Mr. Jackson: It is very difficult to do it for one. We do it for pension plans, where you have a large enough fund to do it. For an individual, it is a very expensive thing to set that up. What some companies have done, and any company would be prepared to if it thought it was worth the effort, is to provide an increasing annuity. The facts are that, given an option, people want all the money they can get now.

Mr. Haggerty: Has Imperial Life ventured into this area just recently?

Mr. Jackson: I don't know. Some companies have done it. I know Crown Life did it 10 years ago, and I think you could count on the fingers of one hand the number of people who have bought it.

Mr. Haggerty: What about Manufacturers Life?

Mr. Jackson: We have it, because we are prepared to do anything like that if we feel there is a demand. All the evidence says there is not a demand for that when you are talking about individuals.

Mr. Haggerty: The reason I raised that matter is I was reading a comment from the federal Minister of Health and Welfare. She was rather critical of the fact that the private sector was only providing about 14 per cent in the area of private pensions in the whole of Canada, which is rather low. She indicated in her speech she thought she was going to give them ample time to do something in this particular area. If you want to stay in the business, then you should be expanding it and giving better coverage in areas of pension.

Mr. Jackson: I don't think offering increasing cost-of-living annuities would help in that way at all. We are active in that field, at least as far we can be.

Mr. Haggerty: But there are individuals who have bought life insurance policies that provide these annuities.

Mr. Jackson: We have seen no evidence that when it comes to an annuity and payment, employees would elect for an annuity that is increasing. They want a high initial payout and they are willing to take their chances.

Mr. Haggerty: They are usually in the small business sector. One or two who are in business have probably gone to the life insurance area to get some form of pension plan. I thought perhaps you might have broadened it out into this area, to include the indexing.

Mr. Jackson: Certainly in pension plans there are a variety of ways of handling it if you have a large enough plan. Using the excess interest approach is quite a feasible thing when you are dealing with a large pension plan.

Mr. Haggerty: If you want to encourage individual investment, perhaps that is the way the insurance companies should be looking at it. You were kind of critical of the CPP. In terms of the funds that are going into this eventually, if they increase the premiums or the pensions, what are you looking at? I can recall one article in the Financial Post that said you can almost go to what--Canada pension plan is about $250 billion, with the revenue or funding that could be available to government and to the private sector. So there is a vast area of capital for investment purposes. Since it was incorporated in 1966, if I look at the data before me, about 50 per cent of that has gone to government for investment and 50 per cent has gone to the private sector for investment.

Mr. Jackson: All I can repeat is that as a company we are very interested in pensions, particularly in the smaller pension area. In pensions, we are quite willing to give excess interest and increments, but in so far as registered retirement savings plans and that sort of thing are concerned, we would be offering that if we felt there was any demand. But we are not going to go to a lot of expense setting up the administrative systems and putting it on computers, which is a heavy investment, when everything we have seen demonstrates that, given an individual choice with his own money, a person always goes for the highest initial payment.

Mr. Damov: If I may, Mr. Chairman, it is fair to say that when it comes to accumulating funds for retirement by individuals, the financial institutions--insurance companies, banks, trust companies--offer a large number of contracts that recognize current high yields and people can buy RRSPs that offer on a one-year, two-year or five-year basis current yields. They are extremely high. It is when these funds are taken out to purchase a retirement annuity that the problem Mr. Jackson mentioned arises. People prefer to buy the maximum possible pension right then rather than a smaller initial pension that may grow over time in order to offset the effect of inflation. These contracts are available on the market. It is just that the public has not been interested in them and this is why there has not been a larger number of companies offering them.

Mr. Haggerty: I was thinking of the people who bought plans some 20 or 25 years ago, before RRSPs came into effect. Somewhere along the line there should be some indexing on those. When you bought a plan at that time and said you were going to add $15,000 or $20,000, when you reached retirement age at 65, you would have that money there. That would be quite a sum of money 25 or 30 years ago, but now--

11:40 a.m.

Mr. Jackson: Most of those plans are on a participating basis. Most of those plans are participating contracts, and as the investment yields increase they get dividends on that. So the funds are accumulating at a much higher interest rate than was promised.

Mr. Haggerty: The dividends may run about 3.5 per cent or something like that. It is a very low return on it. If you had that money to invest today, you could draw in about 18 or 15 per cent.

Mr. Jackson: I would be prepared to argue that, if the chairman wishes to pursue the insurance--

Mr. Chairman: I am afraid of the outcome and I want to protect the integrity of the committee members. Seriously, Mr. Haggerty, do you wish to follow up on this?

Mr. Haggerty: No, it is just a point that has been brought to my attention. I thought this was an opportunity to bring it forward and see what response we could get.

Mr. Chairman: I don't want to hurry you along. It was just that Mr. Williams had indicated he wished to speak initially, as has Mr. Riddell. I try to keep all members involved here.

Mr. Williams: Mr. Jackson, yesterday we had a joint presentation from the Canadian and Ontario chambers of commerce. One of their spokesmen was Mr. Coward from William M. Mercer Limited. On behalf of the chamber of commerce, he took the position there was agreement in some sectors of the voluntary pension plan scheme from the private sector that there would be an element of mandating the private sector would find acceptable as it related to vesting and portability and several other key features, falling short, however, of mandating coverage, which is the real bottom line here and which you have already made reference to in your presentation this morning.

I guess you were before us at an earlier time in a different capacity representing your industry. I think you made a very persuasive presentation for your industry on the initiatives you are taking to try to develop plans within the private sector that would address themselves to some of these shortfalls that have been identified in the royal commission report and that we recognize as a committee. Certainly some of the initiatives seem quite attractive. I think at that time you pointed out, however, that a real selling job--I use that in the proper sense of the word--had to be made on the public, and that would have to be on the initiative of your industry.

Our concern is, given there is recognition and some support for the idea of an element of mandating being introduced, if we go that route, exercise that option of leaving it entirely in the hands of the private sector, over and above establishing guidelines and controls by which you could work, there still would have to be some element of compulsion. It is this area of coverage, whether there should be a floor established below which no person could avoid getting involved in some sort of plan, that is really the cornerstone of the PURS concept. How do we deal with that situation to allow that flexibility, as well as ensuring there will be not only adequate but full coverage for those people in society today who, for whatever reason, have not seen the need or desire to get involved? How can we more than persuade while assisting the private sector, if we exercise that option, to ensure we get the coverage we as a committee feel must be achieved?

Mr. Jackson: I find this a difficult question to answer. This whole area, as I say, I don't feel has been properly researched to find out where the uncovered people are and whether it is reasonable that they are uncovered. My own personal feeling is, yes, there are employers who have pension plans and a number of their employees are not in the pension plan. That is a much easier problem to solve, and I think making these improvements will encourage some people to join the plan. As I mentioned, if you have better vesting, then young people will.

The other issue is large areas of uncovered employees. Some of them are part-time. I think, with persuasion, most employers would be quite willing to include part-time employees as a group. Whether those part-time employees would then contribute depends so much on their individual circumstances, but the major area of the uncovered who need to be covered, I think, lies with the small employer. There are uncovered people who don't need to be mandated

into a pension plan because their income is low and they will have a high replacement ratio with the public plan. Then there are those who are supplementary workers and they are relying on their spouse's pension plan to look after both of them and they would rather put their money into other alternatives such as RRSPs. There are all these various options and I don't think we have a very good feeling of what they are.

I think, if we could address the question of the small employer, there is a need for an educational process. You can change public opinion on these things, as we found from the National Pensions Conference. In fact, I think the federal government in that initiative of the national pension coverage has changed the mood of the nation and made employers and employees realize that we must put more of our money into retirement. To have suggested two years ago the proposals your committee has made would have not been very well accepted. There would have been a great deal of opposition. So there has been a dramatic change in public attitude in the last two years. I give full credit to the federal Minister of Health and Welfare for that initiative.

I think we need to get that sort of dialogue going and a better understanding of the small employees. I haven't spent that much time with John Bulloch recently. We have had a number of discussions, but I think we have to talk about that sort of problem and try to reach a consensus. If we were able to cover the small employers one way or another, I think the remaining problem might be so small that society would say, "Okay, we don't want to regulate everybody in this society and we have reduced the problem to proportions we are prepared to live with."

Mr. Williams: Mr. Jackson, I don't know whether it was your industry when you made your presentation or one of the others, but in any event somebody suggested there should at least be an element of compulsion introduced in the employer-employee relationship by compelling the employers to offer some form of contributory plan and leaving it up to the employees to decide whether they want to keep the money to use now or participate after the offer had been made. I guess it is the old adage, the employers could lead the horses to drink, but whether the employees would actually drink the water or not is another thing again. The element of choice is still left there, but there would be an element of compulsion at the same time. Was that your industry?

Mr. Jackson: No, that was the Canadian Chamber of Commerce, I believe.

Mr. Williams: What do you think of that?

Mr. Jackson: That's a possible solution. I don't know whether it's a good idea or not. A lot of the industries, a lot of employers, might do it the other way. I believe I am correct in saying it is mandatory, if you join our company, you join our pension plan.

11:50 a.m.

Mr. Williams: You expressed concern about what you do with the part-time workers in trying to persuade companies to agree to cover them. One of the groups we had before us last week, one of the larger retail organizations in Canada, was very supportive of the idea. In fact they are trying to develop a new attitude among their part-time workers that they should get involved in some type of plan and that they would have no objection as a company to introducing some element of a compulsory plan if they could get enough consensus from their part-time workers. They felt it was a great thing and they were endeavouring on their initiatives to encourage it among their part-time employees, which was somewhat different from what we had been hearing from other industries.

Mr. Riggin: I guess in our industry, Mr. Williams, they couldn't make it mandatory for existing part-timers but they could for new ones coming in.

Mr. Williams: Yes. It adds a new dimension to the whole matter of dealing with part-time employees and we know it's a very difficult problem for us to resolve. It was certainly a new element introduced into our hearings: some companies wanting to come to the assistance, as they saw it, of part-time workers in that way.

Mr. Riddell: Mr. Williams has asked the question that I would have posed more directly, and that is how does the business council specifically intend to encourage the necessary improvements to private sector pension plans? You are obviously on the same wave length as the Canadian Chamber of Commerce. If you had your druthers, you would druther it be applied by the private sector rather than have any kind of mandating, but how much time have we got to extend coverage for those people who are not covered?

You take issue with some of the statistics that we have been given in that 50 per cent of the work force have no coverage. You question that, but the fact remains that a large percentage of the work force does not have coverage. We have had industry and places of employment in this country for years, so what do you as a council intend to do to encourage improvements in the private sector plans?

Mr. Jackson: It is not improvements in the private sector plans. I don't know if we have statistics, but I would be very surprised if there was any company in the business council that does not already have a pension plan.

I guess in our instance the coverage would have to be among all the companies in the business council. I would imagine that the coverage is well in excess of 80 per cent. The people who are uncovered are those that have not met the eligibility requirement, say, under age 25 or something like that, and some companies have that sort of a rule that until you are 25 you can't get into the plan. There are others that are part-time and I think most companies would be willing to extend that benefit to their part-time employees.

I think with the improved vesting, as I mentioned before, those young people who are expecting to be with the employer for only a short time would then be more likely to do it.

The uncovered area is a flash. When you say 50 per cent are not covered, that is at one period of time. What you want to look at is, if this population moves through, how many of them will end up with adequate pensions. The fact that a number are uncovered at this time does not mean they will not have good retirement income when they come out.

Mr. Damov: If I may add, Mr. Chairman, maybe one very small segment of the work force of some company members of the business council may not be covered because of a deliberate decision in labour negotiations to opt out of the company pension plan. That has happened in rare instances, but it has happened voluntarily.

It is illustrative of this problem, which, as Mr. Jackson indicated, in our view is very largely concentrated among smaller employers because it is an economic problem as to how to provide a pension if labour costs are one of the competitive factors that the smaller employer has to face.

If as much money available for present consumption is what is of interest to the employee, rather than any portion of these earnings to be set aside for retirement benefits for the future, consequently an adequate measure of coverage under these conditions cannot be brought about only by voluntary means. This confronts employers and individual employees with some choices, which in a large number of cases would be resolved in favour of current spending rather than saving for the future.

The question is, how can government provide some incentives and encouragement as well as some requirement for this segment of the uncovered labour force to come into some pension programs that would not impose abruptly some intolerable economic burden on the small businesses that are so important generally speaking? What kind of phasing in can be done, as Mr. Jackson illustrated, perhaps with longer-term employees first? Or it is a question of a higher entry age for initial eligibility, or some other economic or tax incentives that would encourage small employers who very often, as we all know, are on the brink of surviving in business to be able to incur these additional costs.

It is not so much a question of the private pension system, because the system will provide these benefits; it is a question of these businesses being economically capable of adding these additional costs to their cost of operations.

Mr. Chairman: I suppose when we have a better understanding of the nature and extent of the problem we will be able to address that problem more effectively.

Mr. Damov: Certainly.

Mr. Chairman: I am hoping we will be able to do that before we make our final report. There may be a perception of that problem that is not entirely accurate. We may be tending to overreact. That is just a feeling I have at the present time as an individual, which may not be entirely warranted. I think if we get into this area a little more in depth, which I hope to do, then perhaps we will have a better appreciation of the problem and how to address it.

Mr. Riddell: Apart from your appearing before this committee to present your brief, what efforts have you as a council made in the past to try to improve the pension system in Ontario, or in Canada for that matter? I see you are a council that deals with national issues. I just hope your council is not guilty of advising MacEachen in the preparation of his last budget.

In a speech here by Monique Bégin to the Men's Canadian Club, she is asking groups like yours: "Come up with innovative proposals to solve the problem; get involved with groups that represent the business sector, manufacturing; present them with your ideas; present them to me at the National Pensions Conference. I am hoping for new and inventive solutions. When you put your cards on the table, the government will assess your proposals and we will be watching to see how fast you act. We have got to move full speed ahead because, as I said before, we need action and we need it now."

Did you people sit down with Monique Bégin and advise her as to which route we should be going?

Mr. Jackson: Oh, yes, we have talked to pretty well everybody in Ottawa, it seems to me, when I think of all the time I have spent talking pensions in the last two years. Yes, we have talked to most of the main actors in this debate.

Mr. Gillies: Could you give us some advice as to how you got in to see her?

Mr. Jackson: It is not easy.

Mr. Gillies: We know that.

12 noon

Mr. Chairman: Does that conclude your questions or remarks? I wasn't sure whether they were questions or observations.

Mr. Riddell: Do you realize in attacking MacEachen I happen to be on his side philosophically?

Mr. Jackson: Yes, I noted that.

Mr. Mackenzie: I was wondering if you see the OAS and CPP as a form of social welfare as compared with a true pension plan, as one of the previous groups seemed to feel?

Mr. Jackson: Oh, yes, the public pension plans are quite different from private pension plans and they have a wide basis of purpose--I am sorry--they are quite different in their objectives. It depends on how you define a pension plan. If you say it is to provide retirement income, then the Canada pension plan is clearly a pension plan. But it is unlike the private pension plans in that it involves very large numbers of cross-subsidies.

Mr. Mackenzie: Do you agree with or see some need for some form of income redistribution, if that is the role, in effect, the CPP and the OAS are playing?

Mr. Jackson: I guess my criticism of the CPP is that it to a large extent misdirects the money. Most of the money from the CPP goes to the group that has the least need to be subsidized. If the CPP were to be doubled today--I will be retiring in five years and the sort of subsidy I would get out of that would be quite horrendous, whereas the person who is unemployed and who has the greatest need for a public pension would get nothing. It works that way.

Mr. Mackenzie: I have a bit of difficulty. I happen to think there are methods or ways we could get around that. But the only groups that I have heard before this committee argue, "If you improve the CPP, you are going to be charging more to those who can least afford it," and by the same token giving sort of a free ride to the higher income people you are talking about. I am always left wondering, okay, do you accept there is a need for some kind of basic income redistribution, and if you won't accept that, would you accept an increased tax on the higher income earners to establish a higher floor, whatever the method is?

I don't get a quid pro quo. You don't get the people who are going to pay it. I am talking now about the low-income people who are before us, or the unions, or some of the social service agencies denying there is going to be an increase. Yet the only people who seem to be stressing this point are the very ones who are also opposed to some kind of increases or extension of CPP. I have to tell you, I am left a little bit cynical about it.

Mr. Williams: I would like to expand on Mr. Mackenzie's comment if I could. I found Mr. Mackenzie was equating the poor people with the unions.

Mr. Mackenzie: In many cases, yes, but I don't really question that. That is one of the problems. About 54 per cent of people in Ontario who currently qualify for Gains and GIS, in order to get by they have to have their combination OAS, CPP and Gains. That is 54 per cent of the people who are retired in Ontario today. Is their income, in your opinion, adequate?

Mr. Jackson: If you are looking at the future and comparing it with the present situation, it is an unfair comparison because at the present time very few of the retired have a full Canada pension plan. The full CPP has only been paid since the first of 1978.

Mr. Mackenzie: Even if they did, they are not at a very high income level, Mr. Jackson. That is the point I am concerned with. You made the statement to us that for the working poor--and I may not be phrasing it exactly right--on retirement, with their OAS, their CPP, their Gains and their GIS, there is an adequate or almost adequate income replacement. A cynic could accuse you of saying, "The poor can remain poor." Many of us think that is not an adequate income level at all. That is why I am wondering if you believe there is a need for some kind of income redistribution. If not the CPP, how are we going to do it? With the OAS as a base?

Mr. Jackson: I don't think the CPP is the appropriate way. First, if you are asking for those people in the lower incomes to make contributions, they can ill afford to, and if they are poor when they are working they are going to be poor when they are retired. They are the people about whom there is a great need to do something, but I don't think that should be done in a Canada pension plan; it should be dealt with at retirement. The old age security and the GIS are the means, but--

Mr. Mackenzie: You have no problem with a substantial increase in old age security as the ploy?

Mr. Jackson: I think there is a good debate as to whether old age security or GIS is the better way of going. I think the accepted wisdom today is that most of the money should be directed to those in need and the GIS is a better way of doing it. The contrary argument would be that if you do that, then you will get a lot of games being played and you will have the elderly passing their houses and a lot of their wealth to their children in order to qualify for a GIS sort of thing. You are discouraging a lot of people from working after age 65, so the argument for an OAS--we have too quickly just said the GIS is the answer. I think there are good arguments on both sides.

Mr. Mackenzie: So I take it, while you may not be wildly enthusiastic, that may be one of the approaches you would accept--

Mr. Jckson: The biggest problem is the single retired, and there is a need to increase the GIS to the single retired person.

Mr. Damov: I would just like to emphasize the point Mr. Jackson just made, that indeed, whether we are talking about income redistribution or not--this is perhaps in my own comments not the point I would like to make--we do have a large number of elderly who, as we all know and acknowledge, live on a very small, very inadequate amount of retirement income for a variety of reasons. It is particularly elderly women who are in this category because if the pension system is inadequate today, it was even more inadequate 25 or 30 years ago when the husbands of these widows were working and not accumulating anything.

The only way to deal with this at the present time that we ourselves could be recommending is through an expansion of OAS or GIS, because there is an immediate requirement which is a totally separate issue from how to redesign the pension system so that the current generation of middle-aged or young people will grow to old age and have adequate pensions 20 or 50 years from now, which is a separate matter.

Mr. Mackenzie: I think how fair the assessment or the payment of substantially increased OAS is going to be is also going to depend on the type of taxation and what one believes is progressive taxation. But that has to come out of general revenue either way.

Mr. Jackson: One of the best assurances that people, when they retire, have a good retirement income is a strong and healthy society. It is interesting that this discussion is going on in

Canada, whereas in the rest of the world the discussion is more, "Have we gone too far in trying to redistribute income?" and "We have impaired the productive capacity of the country." I think the productive capacity of the country is the key to the future retirement income. I think that is something that has to be very seriously considered.

Mr. Mackenzie: That is also a perception and argument and there are some who would disagree with you.

Mr. Jackson: There always are, but it is interesting that in the rest of the world there is quite a move the other way.

Mr. Mackenzie: Well, it may be the counter-effect of what is going on.

Mr. Chairman: We don't want to get into a political argument here.

Mr. Mackenzie: What do you think this is, Mr. Chairman?

Mr. Chairman: I thought you were advocating confiscation of one's income from those who would perceive the Canada pension plan income as being horrendous.

Mr. Mackenzie: I have never done that, Mr. Chairman. I have just advocated progressive taxation.

Mr. Riddell: We have heard groups like your own tell us that to get the small companies more involved in pension plans we should be looking towards government incentives. You made reference to tax credits and things like this. Why haven't the insurance companies become more involved in setting up a scheme whereby small companies could become involved in their own pension plans, improving pension plans and things like this?

12:10 p.m.

Mr. Damov: We have been involved in this. The insurance companies have been offering pension plans to small employers with three people, five people, ten people. The difficulty we have had has been in making sales. Just within the last year, as I imagine has already been communicated to the employers, the Canadian Life and Health Insurance Association developed a specially designed small employer pension plan, and received the support of the authorities, both in Ontario and in Ottawa, for some simplification of the administrative procedures and so on, so that we could minimize the hassle in the cost of this and be able to sell it to precisely such small firms.

The point at which our effectiveness stops is if we cannot make a sale. That has been the difficulty and it has been, as I attempted to indicate earlier, from the standpoint of the buyer. This is an element of cost that he does not wish to incur in many instances as an employer, and the employer believes his employees would prefer to receive all the money that would come to them in current cash, rather than to have three per cent or five per cent set aside as a contribution to a pension plan.

We cannot effectively make a sale if there is this kind of resistance. This has been a problem.

Mr. Riddell: Do you suppose the government threat of mandating might help to sell the program?

Mr. Damov: It is for the government to decide as to the mixture of threat and incentive that is to be used, but some requirement or standard ought to be introduced and some encouragement. It does not have to be tax incentive necessarily, but that can also be developed. In that respect I am delighted to hear you say, Mr. Chairman, that you may wish to focus on the situation of the small employers and how that particular area of the business sector can be encouraged to bring more of their employees into coverage. We believe that while they by no means exhaust the total population of uncovered people, they represent a major part of it where something can be done very productively and effectively.

Mr. Chairman: Mr. Bentley had a comment or a question.

Mr. Bentley: I would like to ask Mr. Jackson a particular question and I cannot indicate the extent of coverage, but it does have something to do with coverage. There are many plans which make it voluntary for the employee to elect to join. There is no compulsion, as you have indicated there is in your plan, for which it is a condition of employment. What would be the effect if, for instance, the select committee said that where there is a pension plan in existence it would be mandatory to open it for employees and remove the voluntary aspect that exists now.

Furthermore, you mentioned something about the flow through. The flow through--that is the time between when the individual joins the company to the time that he can be a member of the plan--varies from plan to plan. We still have plans in Ontario where--there is not many of them but there are still some--you have to be employed for 10 years before you can be a member. Yes, there still are a few.

Mr. Jackson: I thought that was against your regulations.

Mr. Bentley: There are others that put a time period of about one year. Some are six months and some of them immediately, but a great number of them are two years of employment prior to joining. Would you feel that this select committee should consider eligibility provisions, whether by age and service, or whether by service alone, setting one or two years? Would this improve the flow through for vesting--I know you have supported it--because vesting should be on an earlier base than what it currently is?

Mr. Jackson: I can only give a personal opinion.

Mr. Bentley: That is what I was after, Mr. Jackson.

Mr. Jackson: I would say there is a lot to be said for that. To what degree, is the essence of the question. Certainly, it would be one extreme to say that if you had a pension plan you must join by age 30. I find it hard to imagine anybody would have difficulty with that, but in the private sector there will always be one out there who has a good case for not doing it.

I, myself, personally, would support something like age 25--that you must join by age 25--but you may get far more arguments on age 25. In the same way, I think one year would be a reasonable waiting period. I don't see why anybody should be unhappy with that.

I think you asked another question about what I thought about making plans mandatory on new employees joining.

Mr. Bentley: Where a plan is in existence.

Mr. Jackson: I guess that depends on how you look at a company and how you look at this question of union negotiations. Some companies don't have one pension plan; they have half a dozen pension plans. If you have a plan covering all your salaried employees, but your union employees have said "No, we don't want that," then that is altogether a different sort of legislation than saying if there is a plan for salaried workers, all salaried employees must go into it. I think you would have labour difficulties, and probably Peter Riggin would have some views on that.

Mr. Bentley: No, I wasn't thinking of that point. I was just saying where plans now are in existence or where they may come into existence and where they leave it up to the employee to join voluntarily and he elects not to join--whereas your plan says it is a condition of employment, in effect--do you feel that mandating--

Mr. Jackson: This is an interesting question because it works both ways. You are saying that is one way of getting coverage up. The counterpart of that is you may discourage people from putting in pension plans. Our salesmen generally try to get a pension plan in, and the easiest way to get a pension plan in is to appeal to the selfish needs of the owner. So you say "Okay, put in the plan and have a five-year waiting period and age 30 and you won't get very many employees in, and most of this benefit will go to you, the employer," and that's how you install the pension plan. Well, after a while, he accepts that is not a very good pension plan and then you ease it down and that sort of thing. If you immediately start off with a law, he is going to say, "Yeah, but I can't start this for my own benefit. I am going to have to do all this." I think this is a problem more with the small employers than with the big ones. You may discourage small employers from joining if you put in too many rules. That's conjecture, but I would think so.

Mr. Damov: If I may just add to this, Mr. Chairman, and I agree with what Mr. Jackson just said, I imagine it would be necessary, if this kind of a measure is to be introduced, which I also think may be desirable, to expect to establish some standards. If mandatory participation is going to be introduced and if this would be a contributory plan and the employer's contributions would be credited with 4.5 per cent interest, that may be regarded as very undesirable. So it is not just the question of mandating. There would be some elements of the plan that also would have to be included in the decision.

Mr. Bentley: I am aware of that. I just wanted to get Mr. Jackson's feeling, because I know he's--

Mr. Jackson: I would think there might be some justification from a practical point of view of maybe making it mandatory on companies of a certain size.

Mr. Bentley: I don't know the answers. All I know is I see so many documents that come before us saying it's voluntary for the employees to join, then when you take a look at the total membership, you are lucky to have 40 or 50 per cent coverage where there is a possible 80 per cent.

Mr. Chairman: Thank you very much for those observations. Any further questions? We certainly appreciate your taking the time out to come before us.

Mr. Gillies: Mr. Chairman, on a point of order, I think some of us on the committee are at the point now where we are trying to finalize our schedules for the next couple of weeks. There is still a question mark in my mind, and I wonder if you or the clerk might be able to assist us, as to which days we plan to sit next week.

Mr. Chairman: Could we deal with that this afternoon?

Mr. Gillies: As you wish, Mr. Chairman.

Mr. Chairman: Or you can deal with it now. I think it might be more appropriate this afternoon,that's all, because I have something I am just working out for next Thursday that will be clarified this afternoon. We don't want to make any decision for February 1 when the NDP members cannot be here because they are otherwise involved. Is it February 5?

Mr. Gillies: Yes, Friday, February 5. But I am quite at your disposal on that matter, Mr. Chairman. My only concern is that we have adequate time between the end of the presentations and the beginning of the deliberations as we get into the summer to do some reviewing.

The committee recessed at 12:20 p.m.

PR-17

SELECT COMMITTEE ON PENSIONS

INTERNATIONAL BROTHERHOOD OF ELECTRICAL WORKERS

COUNCIL ON AGING (OTTAWA-CARLETON)

THURSDAY, JANUARY 21, 1982

Afternoon sitting

SELECT COMMITTEE ON PENSIONS

CHAIRMAN: Taylor, J. A. (Prince Edward-Lennox PC)
Brandt, A. S. (Sarnia PC)
Cousens, D. (York Centre PC)
Cureatz, S. L.; Deputy Speaker (Durham East PC)
Gillies, P. A. (Brantford PC)
Haggerty, R. (Erie L)
Jones, T. (Mississauga North PC)
Mackenzie, R. W. (Hamilton East NDP)
McClellan, R. A. (Bellwoods NDP)
Riddell, J. K. (Huron-Middlesex L)
Van Horne, R. G. (London North L)

Clerk: Arnott, D.

Researcher: O'Mara, Dr. J., Legislative Research Service

Consultant: Bentley, W., Superintendent of Pensions, Pension Commission of Ontario

Witnesses:
From the International Brotherhood of Electrical Workers:
Fraser, B., Business Manager, Local 105
Hamilton, K., Chairman, Health and Welfare Committee

From the Council on Aging (Ottawa-Charleton):
Hanmer, B., Deputy Chairman

LEGISLATURE OF ONTARIO

SELECT COMMITTEE ON PENSIONS

Thursday, January 21, 1982

The commmittee resumed at 2:15 p.m. in committee room No. 151.

INTERNATIONAL BROTHERHOOD OF ELECTRICAL WORKERS

Mr. Chairman: Gentlemen, we have Mr. Barry Fraser and Mr. Ken Hamilton from the International Brotherhood of Electrical Workers with us this afternoon. Would you like to come forward? The brief is exhibit 151. I am sure you have all read it. Whether you would like to read it or review it, or whatever way you would like to handle it is up to you.

Mr. Fraser: If I can be assured that everybody has read it, I won't have to read it again.

Mr. Chairman: You may wish to refresh their memories then.

Mr. Fraser: All right, it will only take a second to read through. My name is Barry Fraser, and I am business manager of Local 105, International Brotherhood of Electrical Workers. The following brief, which our local submitted to the committee, shows some of our real concerns within the construction industry.

Introduction: Local 105, IBEW, represents a membership of 1,300 construction electricians and apprentices. Our international organization has over 2,000 local unions in Canada and the United States whose members work for a multitude of employers. In most cases, the employment is for short-term durations, anywhere from one day to a few weeks, in all parts of Canada and the United States.

Money-follow-the-man principle: This is the main purpose of our submitting a brief and appearing before the committee. As you may or may not be aware, in the construction industry negotiations take place on a total wage package basis. In other words, the unions and the employers in the construction industry negotiate monetary issues on a total hourly wage package. Once an agreement has been reached on the total wage package, the union authorizes a deduction, which is often called a contribution, from that total wage package to pay for pensions, health and welfare benefits, union dues, et cetera.

In Ontario our organization has 15 locals primarily in the construction industry. Of these 15 locals, approximately 10 or 12 have a registered pension plan. I might add here that we are talking about 10,000 construction electricians. During 1976-1979 a voluntary agreement among the local unions in Ontario of our organization was reached wherein pension contributions by a member working in another local union's jurisdiction were returned to the plan of his local union. Local union 105 does not have a registered pension plan, and this is where the problem arises. Where members of local union 105 are working in the jurisdiction of another IEBW local union, the pension contributions range anywhere from 25 cents

to 75 cents or more per paid hour. This money is forfeited by our members, due in part to the belief by other local unions that if they reciprocate the money to our members, they will have their plans deregistered due to Ontario and federal pension laws. We don't know if this is true or not, but it seems to be the argument everybody gives.

As our members are employed in construction, we estimate that contributions have been submitted to various local unions in the province over the past several years, which amount to tens of thousands of dollars that have never been credited to our members. For this reason, we feel very strongly that any recommendations on the concept of money-follow-the-man principle should contain some sort of provision for retroactivity. I would like to discuss that more at length later.

Currently, vesting periods in most plans may range anywhere from one year to 10 years, and even if the royal commission recommendation number 42 were implemented reducing the minimum vesting periods to five years, the requirement of continuous service with an employer or membership in the plan would make it impossible for our members who work out of town to ever obtain vesting rights, as a result of the short-term duration of work in the construction industry.

A typical electrician's employment history could include periods of employment in Sarnia, Thunder Bay and Sudbury, interspersed with periods of unemployment. It is very possible that an electrician could work in Sarnia one year and not work there again for a period of four or five years. Our members work all across Canada for short durations and, although it is not within the jurisdiction of this committee, we wish to point out that the problem is not unique to Ontario.

The above is also applicable where tradesmen cross traditional trade lines by working in the jurisdiction of a different trade. An example of this would be an IBEW electrician who is also a qualified welder, who may at times find employment working for an ironworker local union. To my knowledge, there is no reciprocation between other organizations.

<u>2:20 p.m.</u>

It should be noted by the committee that the above plans are not necessarily employer plans but are plans that are either trusteed solely by the union or jointly trusteed by the employers' association and the union of that area. The moneys that support these pension plans, which are part of our wage package, are decided by each local union in accordance with section 10, page 33, of our collective agreement. We have an agreement we will leave here with you. In other words, the procedure for deducting moneys from the wage package will be found in the appendices of each local union--for example, local 105 appendices, page 62, section 1000, A to F.

In the unlikely event that a construction worker obtains vesting rights in a pension plan from another local union as stated

in recommendation 42, we feel that recommendation 44 should make provision on temination after vesting rights have been obtained for all benefits to be returned to the individual, as all of these contributions were part of the total wage package.

Although many of our members have their own RRSP, we would support the consensus that was taken at the National Pensions Conference in Ottawa last spring, whereby it was generally agreed that this money should be transferred to a special locked-in RRSP, which is also a position totally in line with recommendation 50. As we have pointed out, our individual members working in other jurisdictions have for the past several years made contributions to plans in the jurisdiction of other local unions and this money remains in these plans in our members' names. Since this is the case, we urge you to include a provision for the retroactive reciprocation of these funds in some form to our members.

Another area of our concern regarding pensions revolves around our international pension fund, which is compulsory for all members of the IBEW in the US and Canada. I should say they are all construction members. This plan is not registered in Canada. The question of registration was raised at our convention in 1974 and addressed by our international officers. Their report suggests that the problems of registering this plan in Canada are insoluble due to current Canadian legislation. Can this committee investigate the applicable legislation and recommend changes to resolve this question? We feel there should be legislation enacted in Canada requiring that all pension plans be registered. I have some copies of the transcript of our 1974 convention where that was the ruling, but nobody could tell either then or even to this day exactly what the inadequate legislation is that prevents the plan from being registered here.

Mr. Williams: For clarification, you said your convention document indicates that there was no clear reason why it could not be registered under Canadian legislation?

Mr. Fraser: Right. It says: "Your law committee has made a very careful study and spent considerable time in consultation with the actuary and found: Within the "A" membership of the United States and Canada, it is of vital importance that participation in a plan be on a compulsory basis. If, in the United States or Canada, membership in the pension plan were non-compulsory, this would result in a sharp increase in the monthly contributions, further dropouts, and a rapid bankruptcy of the fund.

"In order to register the IBEW pension plan with Canadian authorities, the following would be necessary: require a separate Canadian trust, separate investments of Canadian contributions, amended to include employer contributions, benefits must commence no later than age 70, deletion of the work prohibitions and requirement for full Canadian level funding, which would increase the monthly per capita payment sharply. Your committee views these problems as non-solvable. Therefore, your committee non-concurs."

Mr. Chairman: I do not think any problem is non-solvable. At least it has never been my philosophy of life. Maybe we could have a copy of that. Mr. Bentley, in the meantime, should be able to throw some light on the matter before we proceed further. Mr. Bentley, would you like to comment on this?

Mr. Bentley: Mr. Fraser, when you are talking about this plan of the International Brotherhood of Electrical Workers, this is the old plan, the employee-pay-all plan. It is taken out of part of your union dues. There is no employer-required contribution. That is the obstacle for registration in Canada because, under the Pension Benefits Act, the employer is required to make a contribution to the plan.

Under the old type of IBEW plan and there are a few others--I think there is the IBEW, the barbers, hairdressers--these are all employee contributions. What they are saying is, if we applied the law of Ontario with respect to those particular kinds of plans, we would increase your liability tremendously because there has never been any employer contribution.

This does create a situation. We cannot under the way the law is written at the present time register it because there is no required employer contribution to the plan. Under the terms you have just read to us, it is really an employee-pay-all arrangement.

Mr. Fraser: Right. So in the same respect when we negotiate a wage package and then, as a union, we meet and say: "Okay, take 50 cents an hour of our wage package and put it in the agreement as a contribution to pensions--

Mr. Bentley: It comes through as part of your wage package and it is a commitment by you, as an individual, to remit that on to wherever it happens to be and there is no connotation of an employer-required contribution.

Mr. Chairman: I guess we are going to have to change the law then.

Mr. Bentley: We looked at that very seriously about eight or 10 years ago. One of the points raised by the actuary is that the cost of that plan would rise dramatically, Barry, if we imposed the current requirements under Ontario law.

Mr. Fraser: That I fail to understand.

Mr. Bentley: We would require an employer contribution. There would be a liability for all things that have happened and--

Mr. McClellan: You are just saying the law is the law. Why is the law written the way it is?

Mr. Fraser: You have to look at this plan; for, one, it has 20 years vesting.

Mr. Bentley: I know. I know what your plans have. I know what all of these have.

Mr. Chairman: If you accept the concept that pension contributions are deferred wages, then every pension is 100 per cent employee money and, if that is so, why would the law prohibit that? It would start now if you adopted that concept, approving all pensions.

Mr. Bentley: Let us go back into history a little. The presentations made to the old portable pension committee was that these kinds of pension plans should better be left by themselves. I have a number of papers I can present to you saying these kinds of things. I am not saying it is right. I am just saying this is what has happened.

If the plan was required to be registered under the Pension Benefits Act, we could build in legislation which would accommodate the particular situation you have. Under our current legislation, we would place horrendous liabilities on you, but we could build legislation that would permit the registration. We could permit the flow of the funds to some location other than Canada.

We can do all of those things if that was your wish, but there has never been a presentation except to oppose, and I have been with the Pension Commission of Ontario for damn near 18 years. There has never been until this one now a position taken by any union to say to us that these kinds of plans should be properly covered by the Pension Benefits Act. Truly there has not.

Mr. Fraser: I can believe that, but you have one now.

Mr. Bentley: We have one now. It is the first one and this strikes me as rather amazing because, back in our early history, the impression was that we should cover them and the opposition was we should not, and this came from the old typographers, from the IBEW, from a number of other places. We backed away because of the nature of the plan you negotiated.

Mr. Fraser: Of course, as you said, this goes back probably 40 to 50 years in the organization, and I can fully understand a lot of the developments. It does not change the fact that a pension plan is a pension plan, whether you set one up within a company or a group of employees get together and say, "We are going to put so much money into a pension plan."

2:30 p.m.

I think if it is a pension, it is deferred wages. It is something you are supposed to get when you reach a certain age and, if there are restrictive things in constitutions of organizations that say you will not get it if you are a bad boy, that should all be stricken because that has nothing to do with the issue.

Mr. Bentley: I am not arguing the point with you. I am just saying historically this is why it has not been covered. I was totally amazed when I saw you presentation here. This is the first time that I have seen--

Mr. Fraser: I was at that convention in 1974 and at subsequent ones. I was at the conventions in 1966, 1970, 1974, right through, and I can tell you the Canadian membership voted 90 per cent against the situation here. The argument we gave at the time was that if Canadian law has to be changed, that is what we will do. We will try to change Canadian law. To my knowledge, this is the first committee on pensions that has been in existence to take action on the report of the royal commission.

Mr. Chairman: I might comment as chairman that it is my understanding our mandate is to review the recommendations of the royal commission on pensions with the object of bringing about pension reform. If that is so, then we are anxious to listen to you and the problems that concern you as we are with other persons. Your message should not go unheeded.

Mr. Bentley: All I am trying to do is strengthen your position in this, Barry, but I have not disagreed with you historically.

Mr. Fraser: Right. I am not in any disagreement.

Mr. Bentley: I just wanted you to get the facts before the select committee and I had to go into a little history to say briefly why it has not been considered before. First of all, there never was pressure.

Mr. Brandt: I have a couple of questions to get some better indication of exactly how serious your problem is. I agree with you there is an anomaly in terms of the way your pension schemes are handled and it gives me some concern. Frankly, this is the first time we have had this particular problem brought to our attention.

One of the questions I had was with respect to these contributions you are making when you are working in another jurisdiction, as an example. If you went to my riding of Sarnia to work, there is a deduction made of, I think you said 25 to 75 cents an hour.

Mr. Fraser: Fifty cents an hour.

Mr. Brandt: Somewhere in that range, say, 50 cents an hour. What actually happens to that money? Obviously, it is not being deposited to your account or to your pension plan in your own union as you are in another jurisdiction, but who physically holds that money, where is it sitting?

Mr. Fraser: That local union gets to keep that money and subsequently, I would say, when there is no way for them to reciprocate it back, it falls in the general slush fund of that pension plan and it increases the pension benefits for the members of that local union. That exists right across Canada. My fellow member sitting right beside me has $3,000 in an Alberta pension plan which he will never see. If he just took that $3,000 today and compounded it until he was 65 at 14 per cent, it works out to something like $65,000.

This goes on in the construction industry right across Canada. I know I have read most of your report and you have to deal with Ontario problems. You have jurisdiction over that. As far as extending these problems and meeting with other provinces is concerned, each province will probably have to deal with it also. But everybody is being ripped off, in my opinion.

Mr. McClellan: (Inaudible).

Mr. Fraser: Oh, yes, each local union has its very own plan.

Mr. McClellan: How does each individual local plan relate to the overall IBEW pension fund?

Mr. Fraser: That is altogether separate. That last paragraph deals strictly with a $10 a month international plan. That is not our major concern. Our major concern is this 50 cents and $1 an hour that we are losing.

Mr. McClellan: I get it, okay.

Mr. Chairman: (Inaudible) high I guess on that.

Mr. Fraser: Ten dollars was a lot of money in 1966. Today we do not look at it as being too much money.

Mr. Brandt: I think Mr. Bentley was going to say something.

Mr. Bentley: I want to get into a discussion with Barry about reciprocal agreements because that is something I am very concerned with and have been for a number of years. I have been unsuccessful in getting it into legislation, but I think there is a reasonable opportunity in this coming year to ensure there is some type of reciprocal arrangement. At least we can set a minimum.

Mr. Fraser: I will point out, and in the brief we made mention of it, about three or four years ago our organization came to realize, through reports from insurance companies and what have you, that action is going to be taken by government if we don't get something together towards reciprocation. You have to picture that at that time no one is reciprocating money to anyone.

Our organization voluntarily got together and said, "OK, we are going to draft up an agreement and we are going to reciprocate the money to a guy's home local union. If he happens to be working in Sarnia but is out of Hamilton, we are going to reciprocate the money and we are going to give the locals that don't have a pension plan three years to establish one. If they establish one on the last day of the third year, we will reciprocate the money three years retroactive to that registered pension plan," and they did for those who set up a pension plan at work.

Our membership, which voted on the pension plan, had three votes in those three years, and almost 75 per cent rejected setting up a registered pension plan. We used the argument that all the money that is sitting out there is going to be lost. I should say our membership supported increases in the Canada pension plan, because by its nature it doesn't matter whether you are working at your trade or working at something else, everything you pay into it you eventually get if you live long enough to collect a pension. So our organization has dealt with the issue of reciprocation but now we are in that unfortunate position. Because we don't have a plan, everywhere our members work they are being ripped off for large sums of money and they have been for many years.

Mr. Mackenzie: Is Hamilton the only local without a plan?

Mr. Fraser: No. Local union 1788, which also represents around 1,200 or 1,300, doesn't have a pension plan.

Mr. Mackenzie: Where is it located?

Mr. Fraser: That is Ontario Hydro. They work all across the province. Thunder Bay doesn't have a pension plan. I am just going by memory now. Pembroke doesn't have one. Four or five don't have a pension plan.

Mr. Bentley: This sort of situation exists in other areas too with the plumbers and pipefitters.

Mr. Fraser: I can't really speak for them but I would imagine so, because the question of having a pension plan is a local union issue.

Mr. Bentley: I can't speak for them, but I know it exists, the same as it does with you.

Mr. Brandt: On that same theme for just a moment, are there any construction trade unions that do have an agreement with respect to reciprocity in terms of transferring back and forth, some kind of a model you could shoot for as an objective? Is there anything you know of that is working in terms of the kind of thing you are attempting to bring about?

Mr. Fraser: The organizations claim if they reciprocate the money back to us they will have their plans deregistered.

Mr. Bentley: I don't believe it.

Mr. Fraser: I don't believe it either, but I am saying that is what everybody is claiming. Be that as it may, we can't get it.

Mr. Bentley: I know the reason you can't get it.

Mr. Fraser: I know too. We had our first interim meeting with an insurance company recently and that was one of the selling points the insurance people had: "Charge 25 cents or 50 cents an hour and you get a lot of people in from the east coast or west coast, so all the money comes into your fund. When they leave, you get to keep the money." We said that is exactly why we are setting up a plan, because we don't believe in that. It is a fact that was a selling point used. If you take areas that have a small work force with a massive amount of work, they have to import workers from other parts of Canada and even offshore. Those people who aren't members of that local union aren't members of that plan and that money stays there.

2:40 p.m.

The whole point I am making here is that it is wrong. It is deferred wages, it is a part of a wage package, and something has

to be done. I think you could almost have a special inquiry just into what is going on in the construction industry in this pension area. We have nowhere to turn. We have to turn to the Legislature for assistance in this area because these people who are having money put into these pensions are going to be a liability in their old age, and yet there is definitely money all around the province and all around the country that rightfully belongs to them. It is there in their names, in their social insurance numbers, but they can't have it.

Mr. Brandt: It is not totally beyond the realm of possibility that if we could come up with a solution in Ontario, it might be one that other provinces would follow the lead on. I think they are looking to this committee and to the royal commission as well for some breakthroughs in problems with respect to pensions. I find this an intriguing problem. I want to ask Mr. Bentley something. We talked about the construction industry in Ontario and in Canada not having anything that would relate to a solution for the IBEW. Is there any other jurisdiction that has this kind of mobility problem that is addressed?

Mr. Bentley: We have a particular situation between Quebec and ourselves in the construction industry, Quebec and the rest of Canada, as you would be aware. There is not much we can do about that because of the law in Quebec, but at least we can deal with the rest of Canada.

I can tell you that the reason I am not going to be here tomorrow is I have to write a paper for examination by the Pension Commission of Ontario by next Wednesday on the problems of reciprocal agreements between participating locals that had pension plans first. And there are lots of problems between those under the reciprocal agreements, as you would be aware. There are more problems where you do not have a pension plan which the funds can be transferred into and out of. That one I have to deal with as well. This is why I was particularly pleased when you brought this forward. I think the committee has the Co-ordinating Committee for Multi-Employer Plans coming up next week some time and this would be a good area for the select committee to question the co-ordinating committee.

I think you are aware, Barry, there is a Co-ordinating Committee of Multi-Employer Plans composed now of union representatives, but the invitation has been extended to employer representatives on boards of trustees to become part of the co-ordinating committee. That was established last December. They will be appearing before the select committee.

Mr. Chairman: They will be appearing on Monday morning at 10 a.m.

Mr. Bentley: Some of these problems you have raised have to be discussed by the select committee before this particular group. All I can say is this: The agreements in existence are better than any other agreements that exist between private employers because there are very few agreements that exist between private employers. But you have a hell of a long way to go yet. I did go to Maui and spoke there and got mad at the union delegates

one afternoon. I spoke rather severely about some of the problems all of you are facing, of which I am fully aware. I am looking for a solution and I am know the select committee is looking for a solution.

Mr. Fraser: All through the royal commission reports, all the reports I read, they are referred to as employer pension plans. They are not employer pension plans. They are union pension plans. We decide whether we will have one, we decide what we will pay into it, and we decide who will be the trustees on it. That is the way it is within the construction industry. It might be a jointly trusteed plan but, believe you me, if there are three employer trustees and three union trustees, the three union trustees will call the shots because it is their money.

If they say to the employer, "We want you to take another dime from our wages and put it into the pension plan," the employers will do it. And if they say, "We want you to take a quarter out of the pension plan and put it back in our wages," the employer will do that. He is bound by the agreement. Who the carrier will be is also primarily determined by the union because if one carrier is more expensive than another, then the union will decide, "We don't want that carrier." So when you make references to employer contributions or employer plans in the construction industry, I think it is the unions that run them.

Mr. Bentley: I know, but under the current definition in law--that is one thing, but the law can be changed.

Mr. Fraser: Oh yes, I suppose in law--the word "contribution"--in our appendix, we say "deduction," because that is what it is.

Mr. Bentley: I am very pleased that you have brought this before the select committee.

Mr. Fraser: We wanted to appear here. We met on Monday morning with Mr. Bob Allan, director general of planning and evaluation and liaison with the federal Minister of Health and Welfare Monique Bégin. We met him and presented much the same brief and discussed with him the problem as we see it nationally in the construction industry.

But certainly if we could solve part of the problem in Ontario, that would be a big step, because most tradesmen in the province, rather than going to Alberta to work, if they could they would like to work either in Toronto or Hamilton. There is usually one pocket of employment going on somewhere.

Mr. Hamilton: As a further comment on what Barry is saying, my own work history within this province and within the Dominion of Canada spans almost all of the locals in the province and certainly six out of the 10 provinces. This idea of working for short-term durations in other unions' jurisdictions and the obligatory contribution to their pension funds is something that is very near and dear to my heart.

As I say, I have roughly $3,000 that has been for four or five years sitting in Alberta. On February 1, I will go back to Alberta and will be there for six months and probably make a contribution equalling another $1,000. If that was in any way obtainable, even as a locked-in RRSP, I am looking at a sizeable figure at retirement, and a figure that, even with inflation, may not be as sizeable as the numbers indicate, but would be something to look forward to.

Coupled with that is $350 locked in in the Sarnia area and $780 locked in in Thunder Bay. If all of these were being reciprocated to a plan or to some sort of a fund that I could hope at some point in the future to collect from, then I have something to look forward to at retirement.

I regularly get a letter from a pension plan in West Virginia which indicates I have $47 in their plan in my name. I cannot touch it. As it stands now, if I were to retire simultaneously in four different states I would collect $2 a month composite total, and the same situation exists within Ontario.

Mr. Brandt: Mr. Chairman, I was wondering what the position of someone like Fraser Collins might be, whom I am sure you know.

Mr. Fraser: Oh yes, I know Fraser very well. He would reciprocate it if he knew he was not going to endanger his pension plan.

Mr. Brandt: I raise the question because obviously one area where there is a great deal of construction right now is my own riding, thankfully, and there will be a number of IBEW workers who will go into that particular jurisdiction, who obviously will be making deposits into their pension plan. I would think that would be one jurisdiction where you probably end up with their fund gaining from the problem that you are bringing to our attention at the moment, gaining in the sense that you indicated you had $350 there, or whatever there is, deposited in their pension plan.

I would imagine, because of the mobility of the workers moving into that area, there would be many thousands of dollars in total. What would be the position of that particular union with respect to what you are proposing? Do they look at that as a windfall, or are they looking at resolving the problem, as you are, in terms of trying to bring about an element of fairness?

Mr. Fraser: Certainly, no matter which way you look at it, it is a windfall. It is pretty hard to say, "We have a couple of hundred thousand dollars in our funds that don't rightly belong to us and we'd like to give it back to you." That is asking a bit much of anybody. But the facts are it is there, it is in our names, it is not part of the actuarial study that was done to set up a plan; I would hope not anyway. I think that organizations, be they unions or others, should be forced to give it back if it is not their money, in some form or another; and they should be forced to give it back retroactively.

Mr. Haggerty: What is the Canadian Labour Congress position?

Mr. Fraser: I am not familiar with the CLC position.

Mr. Hamilton: They do not have anything to do with this.

Mr. Mackenzie: You are not connected with the CLC.

Mr. Fraser: Also they are not involved as heavily in the construction industry as we are. They are primarily in the plants, and certainly they support the money-follows-the-man principle if a guy leaves one plant and goes to another plant, another employer. I really do not think the Canadian Labour Congress is that familiar with construction industry problems.

2:50 p.m.

Mr. Brandt: Can I ask if province-wide bargaining aggravates this problem or may help it? Do you think it is a method of making the solution somewhat more achievable? What is your view on that?

Mr. Fraser: I know my views on province-wide bargaining.

Mr. Brandt: No, I did not ask you for your views on province-wide bargaining. In the context of the pension debate, since you are bargaining on a province-wide basis, I suppose I am leading you a little bit--

Mr. Fraser: It has not done anything to resolve it.

Mr. Brandt: I am only suggesting that as a result of province-wide bargaining, perhaps you could bring in an umbrella kind of agreement with all of the IBEW somewhat easier than if you had separated bargaining jurisdictions.

Mr. Chairman: He is asking you to support province-wide bargaining.

Mr. Fraser: What province-wide bargaining has not done for most organizations that were brought into it would--

Mr. Brandt: Are you sure this is my question, are you?

Mr. Haggerty: Maybe he has a pipeline right through to the Minister of Labour. Give him the answer.

Mr. Fraser: We are meeting with him on January 26.

Province-wide bargaining has done nothing for those trades that were dragged in, kicking and screaming, to resolve pension or health and welfare problems, because when you get down to the money and negotiate the total wage package each of you go back to your own locals and decide what you want to do in that regard. That is strictly a local issue.

I cannot see anything happening in that area in the next 50 years, because one local started a pension plan 25 years ago and another one started one a year ago and one is jealously guarding its 25-year plan; the same applies to health and welfare benefits.

If you went to every local in our organization--there are 15--every one of them would claim that it has the best pension plan and the best carrier and they have the best welfare plan and the best carrier. It is like comparing apples and oranges, like talking to four insurance companies at the same time and asking, "Which one of you has the best policy?" You would never get agreement among them.

Mr. Hamilton: As health and welfare chairman for our local, I am sure we do have the best.

Mr. Cousens: I am very fortunate, and I think we all are, to be sitting in a committee where we are receiving a submission that is as important as the one you are making, where it affects key employees that you have a concern for and we are in a position, possibly, to help. The questions I had to ask have largely been asked by the gentleman on my right, and I can see the echoes coming right across the room where there is a sense of support and concern.

I have lost my questions, but I want to make a comment. Mr. Bentley has said it, the chairman has said it. We sit in the committee day in and day out and I just hope that we are in a position to do something to respond to the kind of the concerns you have. I see just two of them: the reciprocity that is a very key concern, and the registration if they are totally employee-funded.

Mr. Fraser: And made to comply with the Canadian law. Twenty-year vesting is unbelievable.

Mr. Cousens: I can just tell you that here is one guy who is sitting up and paying very close attention and will be following it through. I appreciate very much your presentation.

Mr. Chairman: That was an excellent question, Mr. Cousens.

Mr. Cousens: I just had to say it though.

Mr. Chairman: We appreciate the editorial comment.

Mr. Haggerty: Are you suggesting that you get rid of the word "international," is that it?

Mr. Fraser: No, definitely not.

Mr. Chairman: Mr. Mackenzie wishes to ask a question and then Mr. McClellan.

Mr. Mackenzie: I guess three or four of them, Barry. I will not get into the province-wide bargaining that Andy was talking about, because having gone through that at great length and having got caught in the meat grinder over it, I still to this day get people who are decrying it. I know your organization has from day one. I am occasionally invited to building trades groups banquets and they tell me it is the greatest thing that ever happened, so I have never been able to win on that.

Mr. Brandt: It depends on the amount of work in that area at times, doesn't it?.

Mr. Mackenzie: No, it does not. There are some strange splits in that damned issue that I have never been able to understand totally.

Mr. Chairman: I have never seen you on the horns of a dilemma before.

Mr. Mackenzie: On that particular issue, it is a problem.

Mr. Brandt: I enjoy seeing him in that position.

Mr. Mackenzie: My questions will be maybe a little tougher than Mr. Cousens' because I have some concerns with this. I do not think anybody can deny the case that they are not getting their own money back and that we have a problem. I guess my questions are probably more to Wells than anybody else, and they are for some clarification on where we stand on the issue.

The only other thing I was going to say generally is that one of the problems the building trade people are faced with--and you can certainly carry your own fights and your own cases--has been a tendency until some of the recent fights within the congress, I think even in the trade movement level, and it is carried over I know in our own caucus in the House, to say, "Hey, if they have some existing plans, you bloody well do not interfere." They do things just a little bit differently and they have always had their own arguments over who has the best plan and their own way of doing things.

So it has been a little bit difficult to break new ground. You have had some traditions, and some of them I think are wrong, and I almost gather that is some of the positions you have taken in recent years. I do not know whether you are still head of the building trades council provincially or not, but I know that you have carried some arguments for some changes. But there has been a tendency not to get involved in the building trades business and that has made it a little difficult as well.

What I am concerned about in the questions that were raised with us here, Wells, is first when you say the costs might be much higher if this were changed. Can I have a bit of an explanation from you on it?

Mr. Bentley: Yes. Under the current legislation, and that is what we are looking at, if there has to be a proper computation of the benefit that is available to the individual--which remember now is paid on the basis of whatever you defer on it--it will come out of the package that will go into either health and welfare, pensions or whatever. The benefit structure is such that there would be a liability greater than the amount of contributions that you have made historically to the plan, what the assets of the plan would support. Then we bring them down to the vesting rules, not the 20-year rule you have, but the vesting rules required under our law, which is even tighter than what you have, and ours is loose enough as you know. Then there is the distinct possibility the employee pay-all pension plans can have a fairly hefty liability and somebody will have to start funding that liability. That is with respect to the employee pay-all plan they are talking about and of which they are members.

Mr. Mackenzie: Let me ask you a question? Pardon my wanting to be clear on this. If 50 cents an hour is the figure, for example--it could be any amount that is going into it--wouldn't the liabilities or the problems or the costs be the same with that whether it is an employee pay-all or whether it is employer contributed if it is at the same level?

Mr. Bentley: I have seen some plans where the retired employees have to die before there is sufficient money in the plan to buy the benefits to which somebody will be entitled. Those are pretty much out of the road, but I have seen them in the needle trades and so on.

Mr. Chairman: But you are talking of money purchase plans.

Mr. Bentley: Year-to-year money purchase plans. What you do is try to slate it, not into a dollar amount but you try to translate that into a figure that will give you, say, $10 per month per year of service.

Mr. Fraser: Which plan are you talking about? Are you talking about the IBEW international plan?

Mr. Bentley: We are talking about the IBEW.

Mr. Fraser: That is not a major concern of ours here. We were of the opinion that if it just requires some adjustment in laws and then it can be registered, then let's get that done. I do not know what the actuaries in Washington say in regard to why it would, but they told us it would cost $3 a month more. Why would it cost $3 a month more? It is actuarially sound at $10.

Mr. Bentley: To comply with the law that exists at the present time, it could. I do not know what the figure would be.

Mr. Mackenzie: In other words, you would require that much more money?

Mr. Bentley: In order to fund the benefit that has been promised to them, we could cause an additional cost to be made to the plan and each one would have to be determined on the basis of that particular plan.

Mr. Mackenzie: So that is what you are talking about when you say there could be some additional costs?

Mr. Bentley: That's what I am talking about, yes.

Mr. Mackenzie: You started to refer to this. Is there a problem in terms of other plans being deregistered? I gathered from your comments that that was not quite accurate. What is the concern there?

Mr. Bentley: The concern simply is that if you have a registered pension plan and you have built into it a reciprocal transfer agreement between locals, when the money goes from this local to another local that has a registered plan, there is some control over it. When it goes to a non-registerable plan, then

there is a concern about the protection of the individuals left in that particular local. Whether this is a legitimate concern or not, Bob, is something that would have to be determined, but that is the base on which it has to work.

Mr. Mackenzie: What you are saying is that you may have more outside workers than local workers working and therefore the loss of benefits may mean that the local area would not be able to support the project.

3 p.m.

Mr. Bentley: There are a number of connotations that have to go into it because it is going to a non-registerable plan and once--let's take a person where the plan that he is coming from has 10 years of service as a vesting requirement and there's a transfer of that credit to a non-registered plan and that particular plan that he left said he was entitled to a benefit payable to him some time in the future and he takes that money and moves to a non-registered plan and it disappears and the bucks are gone and you don't have that. Now maybe he spent it on a house, but maybe he has gone out and bought something that really doesn't give him an income on retirement, and that is not the intent of a pension plan. That is one of the arguments.

Mr. Fraser: I just must comment there that when a construction electrician living in Hamilton goes to work in Sarnia, even if you reduced the vesting period to one year, our local unions within the construction industry don't want that guy in that plan. They don't want to have to carry him. He might be there one year and he has a vested interest. Now he leaves and he never returns there. It's quite likely he will never return there in the rest of his lifetime but he has a vested interest in that plan. The unions don't want it. That's why for those who do have pensions, they set up this reciprocation so that when the money came in and soon as it was received by the administrator, it was sent right back to that other local. They really don't want to have to carry--

Mr. Bentley: They don't want to have the administrative problem in carrying it.

Mr. Hamilton: On the other side of the coin, in a situation, for example, Sarnia, because it does have a lot of work at the moment and they do have a pension plan, surely their plan was originally set up on an actuarial basis concerned only with their members. I have a little difficulty understanding how the transfer of funds, which are in effect a windfall to them and due primarily to a change in work force, would result in endangering the existing plan if it was originally set up on an actuarial basis, tied to their membership and without the anticipation of (inaudible).

Mr. Bentley: I am going to answer that one. The answer is that if all of the things that you said did in fact take place, there should be no problem in a transfer out of the money. But this is the answer I have received consistently: "Look, it's tough bananas. They don't have anything for us to transfer into." I am being a little bit more blunt than the way it has come to me but

it's tough bananas. "This is a reserve. We can build for our own membership and those are the individuals that we are primarily concerned with, not the transients who come in and out. We are going to use that surplus to build benefits for our own people."

It is pretty hard to argue when you can't get agreement between yourselves, and this is one of the things I am taking you back to. This creates a problem for us.

Mr. Fraser: When we have during the past three years met with various people in an attempt to set up a plan that would be acceptable, we ran into restrictions as to how much of a contribution would be necessary to make it actuarially sound and this was based on a very brief study of our own local. I can see your point that certainly the benefits paid from a local that has experienced a windfall influx can be higher, but the basic plan itself must still be actuarially sound or it couldn't have been set up in the first place.

Mr. Bentley: I am not arguing that point. I was just telling you what kinds of things have been said to me over a period of time.

Mr. Fraser: The people who make these points are morally wrong and they should be legally wrong.

Mr. Bentley: I didn't say anything about that. I am just saying that is a problem that has been before me. I am glad you have brought it out in the open because it is something that has to be resolved.

Mr. Mackenzie: You are jumping the gun a bit here, I think, because these are some of the things I am really trying to get at. Are there any problems in practical terms that you see in working out the transfer arrangements?

Mr. Bentley: Bob, there is one way to do it and this is the way I am looking at it and nobody is going to be happy with it. I think that what we would have to do under law is set the minimum requirements for any reciprocal transfer agreement. Now, you can go beyond that if you want in your agreement, but I think we are going to have to set the minimum requirements, and this would be with respect to the principle of money following the man or the principle of the benefit transfer and there are reciprocal agreements that provide for benefit transfers. These are the two major methods of doing this.

If you want something that will work reasonably well, then I am afraid--I had to come to this conclusion--that principles will have to be set in law which will set the minimum requirements to give you lots of flexibility above that for the richer and better plans or whatever, but at least the minimum requirements are going to have to be set in law.

Mr. McClellan: Surely you are just talking about transfers from one plan to another plan. When the problem is that there is no plan, what do you transfer the thing to?

Mr. Bentley: Then we have to make conditions. I can tell you a condition I--

Mr. Mackenzie: Is this one of the minimum conditions you are talking about--that each local would have to have a plan?

Mr. Bentley: No. I think if you want to have a local that would say, "Okay, the money flowing in can roll over to an RRSP," then we would have to say, "You will then establish noncommutable RRSPs for your members. As long as they are members of your local, you would have to observe the requirements that could not be commuted." We would have to set certain requirements with respect to it in order to ensure the money that is transferred in is used for the purpose for which they were designed, that is, the payment of a benefit down the road.

You could have--in your case that you set out to me--a number of transfers made into an RRSP which would give you a capital sum at the time you are eligible to retire to be able to go out and buy yourself an immediate annuity.

We had to consider the transfer to a local that does not have a registered pension plan. I think there will have to be other conditions.

Mr. Fraser: What about the nonunion worker?

Mr. Bentley: You can go on and on. I don't know how far you go.

Mr. Fraser: This committee is looking at the welfare of the citizens of Ontario who are having money taken from them and put somewhere for them, and they are not going to be able to get it. It is a major problem. Unless there is a forum--even for those people--there are a lot of people who don't belong to unions. I am not here representing their case, but their case is a real issue out there. They often work and have the same deductions taken from them.

Mr. Bentley: I know. I am aware.

Mr. Haggerty: On the point Mr. Bentley mentioned, what are the advantages and disadvantages of having a registered or unregistered plan?

Mr. Bentley: Under a registered plan there are certain requirements that must be met. Under an unregistered plan the conditions are what the people who are running it--

Mr. Haggerty: Is there any protection under the unregistered plan?

Mr. Bentley: I believe there is.

Mr. Fraser: There is no protection under an unregistered plan.

Mr. Bentley: Under an unregistered--

Mr. Fraser: We have had members who were members of a union for 18 years and dropped out and they just kissed it all goodbye. They are no longer members.

Mr. Bentley: In an unregistered plan, but in a registered plan, there is some protection.

Mr. Fraser: In a registered plan, there is protection, all the way down the line.

Mr. Riddell: Should there be such a thing as an unregistered plan then?

Mr. Bentley: How do you define an unregistered plan?

Mr. Haggerty: How do you define a registered plan?

Mr. Mackenzie: Most of the points, I gather, could be done. Is it something that has to be done legislatively? Is it something that, if the will were there, could be done internally? They are obviously asking us for legislation, but what I am asking you is which would be the easiest way as far as the government is concerned? You are going to need some legislation to (inaudible)

Mr. Bentley: Can I give you an illustration, Bob? I was in Maui on a holiday, but I also attended the International Foundation of Employee Benefits program in Maui and I listened to union trustees talking about reciprocal agreements. It ended up they were shouting at one another first and then they shouted at me, which made me very angry and I got up and shouted at them. They answered, after listening to a couple of days of discussions in various workshops, I had to come to the conclusion, "Look, it isn't going to work that way, Bob." There seems to be in my view enough divergence of opinion between locals, no matter where they are that some base is going to have to be set by legislation.

That is the principle I have accepted and that is the principle on which I am writing a paper for my own commission which will be considered Wednesday. Everybody will get mad at me and when it comes out, all the unions will be mad at me, and everybody else will be mad because I didn't go far enough to cover unions.

3:10 p.m.

Mr. Mackenzie: Regardless of whether we are going to shout at you or not, what you are telling me is that the conclusion you come to is that it is going to need legislation.

Mr. Bentley: I think so.

Mr. Mackenzie: I will go back to Barry then. Provided the direction of this committee is that the problems you outlined are ones that we should be trying to address as a committee, what kind of problems do we run into, or do we run into problems--I guess this is my caution showing--with any other sections of the building trades?

Is there something that is really your problem basically, with maybe two or three other situations? Is there anything in what you are asking that is going to cause us problems--being very blunt with you--with plumbers, carpenters, or anybody else?

Mr. Fraser: You just heard Mr. Bentley say that the ones who have pension plans can't agree on how they should reciprocate with each other. Those of us who don't have them don't even count. I would stand anywhere and stand up to anyone who tried to argue against that money following that man in any fashion that you can make it follow him. If they are doing anything otherwise, then they are stealing wages from workmen, and that to me is dead wrong. That is deplorable.

Mr. Mackenzie: I don't have too much of a problem with that basic premise. All I am really wondering is whether we are then correcting an injustice, even if it is only with part of the movement, or are we opening up another can of worms, as I have seen happen occasionally.

Mr. Fraser: I can only speak for our own organization which has made it clear to me that if it wasn't illegal--and I don't know why it is illegal--they said they would reciprocate. They would just send us a cheque and could just give that money to those guys and they could claim it on their income tax or put it into an RRSP if they wanted.

Our second choice--from reading the federal report last spring--was where they talked about some sort of a special locked-in RRSP. That would even be a saviour to our people because at least it would be theirs and if they didn't get it, their beneficiary would. But we sure as hell don't want somebody else getting it.

Mr. Mackenzie: Some kind of a central pension agency would be useful in a situation like this.

Mr. Bentley: Or a locked-in RRSP or whatever you want to call it. There are a number of vehicles that could be used which I am considering.

Mr. Fraser: You mentioned the differences between registered and unregistered plans. There is another significant difference. A registered plan is tax deductible under Canadian law. A non-registered plan is not.

Mr. Bentley: That is right.

Mr. Fraser: So, when they get into those arguments that to make the plan actuarially sound, it is going to cost $2 or $3 more or whatever, now at least they will be tax deductible and you are guaranteed you are going to get it.

Mr. Bentley: If you can put it into an noncommutable RRSP and the rollover, then you escape that.

Mr. Fraser: Yes. All the plans are registered plans except for the ones that are run by--

Mr. Bentley: Could I carry this one step further, Barry? It is not only a situation in Canada, as you know. I think you mentioned that you have worked across the border and many of you go to Athabaska, to Vancouver, to various places across Canada, and you know there are reciprocal agreements between registered plans in various places now. They are working reasonably well but I don't think they are working at the efficiency it is possible to work with. I work with Evan Evans and a number of other people across Canada. Whether you agree with Evan or not is--

Mr. Fraser: I can only speak for our organization. Our organization works well across Canada. There is a difficulty between the states because now you are talking about international laws of reciprocation--

Mr. Bentley: It is the same principle.

Mr. Fraser: I got a letter just yesterday from a local in British Columbia where one of our members was working. I didn't even know he was there. They wanted to forward his pension funds. They wanted to know the address to forward it to. I just told them to send it to our office address and when I get it I will give him the cheque.

Mr. Bentley: That is one of the problems with an unregistered plan. The guy is having payments made; usually it is a number of cents per hour that the employer forwards to the union where he is working. Under the reciprocal agreement, that money comes back to you, but then it is lost to the individual if he takes it out and blows it on a new car. It doesn't meet the concept of income replacement at some time in the future.

Mr. Fraser: It goes back into the economy at least.

Mr. Mackenzie: Unfortunately, one of the things that has been coming through loud and clear is that if we are going to get some basic pension plans--I am talking now over and above the CPP and OAS arrangements we have--there is going to have to be some commitment to what the intent is, and that is to build some kind of a pension arrangement.

Mr. Hamilton: This idea of a noncommutable RRSP or a fund of that sort, where it is locked in until age of retirement and must be used for the purpose the pension money was deducted for, seems to me to be a reasonable idea. At least, once again, it comes back to the individual and he will eventually benefit from it.

Mr. McClellan: If that is saleable to your membership, because that locks you, as a local, into having a plan. My understanding is that we are into this jackpot in the first place because of a democratic decision of the members of your local not to have a plan.

Mr. Fraser: Not to have a private plan. We support the Canada pension plan.

Mr. McClellan: I understand that.

Mr. Fraser: If they wanted to double that tomorrow, we would support it.

Mr. McClellan: Precisely. You have made a clear political choice, in a sense, and a pension choice. You are saying, "We want to go this route. We do not want to go that route." And everybody else is going in the opposite direction, and you are saying, "Well, what kind of protection do we have as a minority?" The solution that is being put forth commits you to having your own plan. That is what a noncommutable registered retirement savings plan is.

Mr. Hamilton: But that can be on an individual basis, can it not?

Mr. Bentley: There has to be some vehicle for that money to flow into and be held for the purpose for which it was designed.

Mr. McClellan: Surely, since we are in the realm of private plans and private choices, the solution should not involve a compulsory private plan.

Mr. Bentley: It does not have to, I do not think.

Mr. McClellan: I have not heard the part of the solution that permits the money to be transferred from a registered plan in another local back directly to the individual.

Mr. Fraser: There is a simple solution. Everybody agrees that it is part of wages, whether deferred or now. If you get the money now, the administrator who took it from him in the first place issues a T-4 slip with the cheque, and that person then, who does not belong to a plan, can either put it into an RRSP, or he can spend it. Many of our members, because we do not have a plan, put the maximum amount into an RRSP, which is good for them.

I do not want it to get lost in procedural matters that, because it is too complicated, we cannot do anything about it. The money belongs to that worker. That worker should get it. If you can devise a way that it goes into a locked-in RRSP, I do not think there would be too much objection to that. On the other side of the coin, if you cannot, there should be something where he gets his money back.

Mr. Chairman: We do not see the problem as insoluble, Mr. Fraser.

Mr. Fraser: I certainly do not either.

Mr. Mackenzie: One final question: It has really been partially answered but I just wanted to be clear. I take it also, from your own remarks, that your union's position is that one of the issues you are not at odds with the Canadian Labour Council or the Ontario Federation of Labour is the idea of improving the CPP, or the basic pension.

Mr. Fraser: We are 100 per cent in support of that. We are 100 per cent in support of the CLC--our local union is.

Mr. Mackenzie: And two or three others that I know.

Mr. Bentley: May I ask or make an invitation--I told you that I am very interested in this, and I have never had a presentation from the International Brotherhood of Electrical Workers, or ever had an opportunity to talk to you because nobody has ever come forward. My telephone number is 963-0527 and I would like to meet with you and your representatives to discuss some of the things that I am looking at.

Mr. Chairman: What days is that phone answered, Mr. Bentley?

Mr. Bentley: I had to get that one in because this has been a baby of mine for a long time.

Mr. Chairman: And you are going to have an opportunity to rock it. Any further questions, gentlemen?

If not, thank you very much. It has been a very worthwhile dialogue that we have had this afternoon. We appreciate your bringing this matter to our attention.

Mr. Fraser: We certainly appreciate the opportunity of appearing before you on it. Now we leave it with you.

COUNCIL ON AGING, SOCIAL PLANNING COUNCIL OF OTTAWA-CARLETON

Mr. Chairman: The second delegation this afternoon is a Mr. Hanmer, deputy chairman of the Council on Aging, Ottawa-Carleton. Would you like to come forward, Mr. Hanmer? The submission has just been distributed as exhibit 173.

3:20 p.m.

Mr. Hanmer: Thank you, Mr. Chairman. Perhaps before I deal with the submission proper, a couple of words about the Council on Aging of Ottawa-Carleton might be appropriate.

It's a body that is somewhat distinctive in Ontario. There aren't too many composed as is our council in Ottawa. It has about 35 or 36 members. One third of these are senior citizens. One third are service providers, such as doctors, nurses, social workers, librarians, and other professional people who cater in various ways to senior citizens and the remaining third is composed of interested persons from the community who may be senior citizens but some of them are not. We are not a group composed wholly of senior citizens. I wanted to make that point especially since on this whole issue of pensions, though a good deal of the consideration is applied by the general public to senior citizens, we realize that it is equally important to those who are 25, 30, 40 or 50 years of age as it is to those of us who are retired. There has been some input from this segment in our discussion of this matter.

Mr. Williams: Sorry, Mr. Hanmer, I missed the number of members you had in your council.

Mr. Hanmer: There are 36. It has been in existence seven years and it seems to serve a very useful purpose. It does not duplicate what the senior citizens organizations themselves do. It is largely an organization for promoting new programs, for liaising with the local authorities and generally giving resource support to senior citizens. When a program is launched and operating successfully, within a couple of years it is handed over to a group of seniors themselves to look after. So it is not an ongoing operation in terms of operating programs for seniors.

Mr. Williams: So you consider yourselves as sort of an umbrella group?

Mr. Hanmer: Yes, to a very large extent. We have a separate senior citizens' council which operates and is composed wholly of seniors.

As a representative of the Ottawa-Carleton Council on Aging, I am pleased to present our council's views on the pressing issue of pension reform. These are based mainly on the report of the Royal Commission on the Status of Pensions in Ontario and the first report of this committee. We also had an opportunity of examining the possibilities that exist for pension reform through our participation in the National Pensions Conference last spring.

We believe that we are at a vital stage in the process of reform. This opportunity must not be allowed to pass through the failure of provincial or federal governments to agree. A great deal of work has gone into reviewing retirement income arrangements in the very recent past. It is our view that we are rapidly approaching the end of the study period and specific action should now be the prime objective.

The order in which we refer to the various elements in this complicated scenario will be basically in the same order as they were dealt with in the royal commission report.

Government retirement income programs: The base income of retired persons in Canada is the old age security together with the guaranteed income supplement and the Gains benefits provided by the province of Ontario. Unfortunately, these programs have failed to fully ensure that all senior citizens have incomes which are generally acceptable. They have been particularly unsuccessful in ensuring income levels which equal the low income cut-off or basic poverty level established by Statistics Canada for unattached old age pensioners of which group women form the largest part.

We therefore support most strongly the recommendations of this committee in its first report that calls for urgent attention to the need for immediate action to aid the elderly single.

Questions have been raised as to the best way to do this. Should the universal old age security pension be raised or should it be done on an income-tested basis through the guaranteed income supplement or the Gains benefit? We support the maintenance of universality in the basic pension and strongly recommend the implementation of increased payment levels under the guaranteed income supplement immediately. We commend this committee for its

recommendation that until changes can be made to increase the GIS as advocated, the government of Ontario should increase without delay the Gains payment to single persons to bring them up to the adequacy level of available income.

We reject recommendation 14 of the Haley report which proposes phasing out the spouse's allowance program. We agree that the spouse's allowance makes provision only for a select group of persons between 60 and 64, whereas adequate financial provisions should be available to all persons in this category. We wish to point out that when meetings of seniors are held in Ottawa where the subject of retirement income is discussed, the loudest protests have come from women between 60 and 64, most of whom find current assistance from Ontario totally inadequate.

They enjoy none--I would change the word "none" to "few" because they do have the benefit of low-income housing at age 60, so it is incorrect to say "none." So would you please change that to "few," which is nearer the truth? They enjoy few of the additional benefits which accrue to those over 65. Yet their income, even by the standards of old age pensioners, is pitifully low.

We recommend, therefore, that it is an upgrading of standards for those presently outside the provisions of the spouse's allowance program that is required, not the abandonment of a program that contributes positively to the wellbeing of old age pensioners with younger wives and their widows.

Canada pension plan: Present benefits under the Canada and Quebec pension plans are established at too low a level. This came about undoubtedly when the plans were being developed in the 1960s when it was the hope of the legislators that voluntary private pension and retirement plans would make up the leeway, and thus ensure that Canadian could retire with reasonable incomes that would help them to generally maintain their pre-retirement standards of living. We all know the voluntary private pension system has failed to do this.

Plans to cover the majority of paid workers never materialized. More than 60 per cent of all Canadian workers are not presently covered by any private plan. Even those that do exist serve the majority of their participants poorly, if one excludes the plans for government employees. There is a lack of mandatory benefits for a surviving spouse, and this contributes in no small measure to the very large number of women over 65 who live in poverty. Another sad part of the failure of the private system is that many employees find themselves with no real retirement benefits. Their contributions are deducted every pay day. When they leave the employer they receive back their contributions with minimal interest, and are often worse off than if they had deposited those contributions in a savings account. Our council, therefore, is of the opinion that any attempt to develop mandatory private pension plans would flounder and leave the retiree in a position no better than that which exists today.

A proposal from the Haley commission for a provincial universal retirement system is likewise, in our view, an inadequate answer to the overall problem of providing benefits for all residents of Ontario. We refer in more detail to the PURS proposal later in this report. It is our view that the expansion of the Canada pension plan is simpler and is generally more effective and efficient than PURS is likely to be or than any mandatory private coverage could be. We, therefore, recommend the doubling of Canada pension plan benefits with commensurate adjustments in the contributions to make this possible.

Such a process is, we believe, fully compatible with the philosophy of government intervention in the affairs of the work force in Canada for many years past. We have compulsory workmen's compensation programs, national universal medicare system and the unemployment insurance program. CPP allows pooling of contributions, which spreads the risks and uncertainty of old age and, very importantly, allows for flexibility in meeting changing retirement income needs in the future. We believe that expansion of the Canada pension plan could achieve the required goal of future satisfactory retirement incomes for those now in the work force without imposing too heavy a load on low-income earners and those with young families and high mortgages.

In recommending expansion of the Canada pension plan, it is necessary to refer to the criticisms that have been directed against the investment processes of the Canada pension plan up to now. Fears have been expressed about the effects of adding to this pool of money without revising the arrangements for the investment structure of the Canada pension plan. We propose to address ourselves to this aspect very briefly, but before doing so wish to refer to some other elements in the Canada pension plan we believe should be changed when the whole pension question is in a state of flux. The points we wish to make are:

1. The government of Ontario should go along with recommendation 32 of the Haley commission that an amendment should be enacted so that the child-rearing drop-out provision as now legislated can take effect without delay.

2. We do not agree with recommendation 33 of the commission's report that survivor benefits should continue to be approximately 60 per cent of the pension benefit of the decreased contributor. We read every day of the distressing poverty situation of Canadian women living in retirement. Most of them are widows and part of the reason for their poverty is the inadequacy or non-existence of survivor benefits in current plans, including the Canada pension plan. We therefore recommend that the survivor benefits should be increased to at least 70 per cent.

3. We concur with recommendation 36 that the earliest age of eligibility for CPP retirement benefits should continue to be 65. In view of the many moves in the direction of abandoning 65 as compulsory retirement age, we recommend that the question of Canada pension plan retirement benefits being paid to persons over 65, even though they may be fully employed, should be re-examined. Currently the choice is with the individual and there may be some

situations where this makes sense, but in the majority of cases, it would be preferable, we believe, to postpone eligibility for Canada pension plan benefits until full retirement takes effect; or in any case at age 70.

3:30 p.m.

4. We support the proposal for amendments to Canada pension plan to provide more effective, less complicated and less time-consuming procedures for appeals.

5. The indexing of Canada pension plan benefits to the consumer price index should continue. The possibility of quarterly indexing, as in the case of old age security and the guaranteed income supplement, should be explored. Many CPP recipients are in an income position comparable to that of GIS recipients.

Effect of increases in Canada pension plan on economic activity: As stated in your first report, critics of the proposal to double Canada pension plan involvement argue that the effect on economic activity in the country could be serious. This is based on the fact that present private pension funds provide a considerable source of funds for business development and mortgage financing. These, it is claimed, could be severely affected by the diversion of money to government control brought about by increases in Canada pension plan contributions. Without changes in the manner in which the accumulated funds are utilized, this may well be true, but it is surely not beyond the capability of our economic and financial experts to devise a way of counteracting such an adverse effect by channelling the additional funds into the private sector.

The Haley commission, in recommendation 30, makes suggestions for changing the investment structure of the present Canada pension plan. No doubt a great deal of thought went into this recommendation. The objective is not an easy one to attain. If, however, there is real determination on the part of our politicians to do what is best for all future retirees by doubling the Canada pension plan, surely the problems of utilizing the increased funds can be solved even if existing funds remain as at present. It is true that when CPP was being developed initially in the 1960s, sectional or provincial self-interest was very much to the fore, when governments spotted the potential that existed for access to substantial funds for public works projects and the like.

We have a right to expect a less selfish approach by governments in respect to any additional funds that might accrue, and a greater resolve to do what may be best for the country as a whole rather than to be concerned solely with local or sectional political interest. Together with the greater fund of experience that has been gained of the last 16 years and the opportunities now afforded our experts in this age of computers, surely it should be possible to establish an acceptable pattern for the utilization of the increased funds in the Canada pension plan to the benefit of all, including the private sector.

Employment pension plans--provincial universal retirement system: As we have declared in favour of increased coverage under the Canada pension plan, it will be clear that we do not favour the adoption of PURS. There are a variety of reasons why this is so, some of which are:

1. Why have two mandatory plans? We already have Canada pension plan, which, as far as it goes, serves employees well. There are minor adjustments that are desirable and, of course, the coverage should be extended, but is it wise to introduce an additional plan with all that entails, when a relatively simple and straightforward plan already exists?

2. Defined contribution or money-purchase plans such as PURS have not found favour in Canada for many years. This is because they do not have the capability of matching benefits paid under defined benefit plans for the majority of recipients. They do not normally reflect the impact of inflation such as has occurred in recent years. Employees under defined benefit plans also know what to expect.

3. PURS would take a very long time to mature. Consequently, it would leave millions with inadequate pensions for up to 25 years and more. Expansion of the Canada pension plan could offer adequate pensions in a shorter span of time.

4. An impression is created by the tone of the Haley report that the PURS plan may well have been evolved in some measure from a desire to find a means of ensuring that accumulated pension funds are directed into the private sector. Having started from this premise, the processes or mechanics of the scheme were then worked out. It is our belief that if proper emphasis were given to the need for additional Canada pension plan funds to be funnelled into the private sector, given the will of government to do this, the same result could be achieved without duplicating the administration to operate a new pension plan such as PURS.

5. The adoption of PURS would create real portability problems for anyone who took up employment outside of Ontario. We are not encouraged to believe that many provinces would be prepared to adopt parallel schemes to PURS. On the other hand, Canada pension plan is fully portable anywhere in Canada.

6. The provision for all workers to hold individual accounts through their working careers and to invest in mortgage funds, equity or other financial vehicles, including provincial bonds, gives the impression of being a very democratic procedure. In practical terms, a great many of the insured may have serious difficulty in making the choices open to them, just as those fortunate enough to have money to direct into RRSPs have difficulty in choosing today. Canada pension plan is a co-operative rather than an individual-oriented system. In our view, it is likely to be more equitable to all those involved by catering to the average worker in a more efficient manner.

Should the proposal for the doubling of the Canada pension plan be approved, it would, we realize, substantially reduce the need for private pension plans in the future. However, it is likely that some private pension plans will continue to function. Should the eventual decision not favour either expansion of CPP nor the adoption of PURS, then the need for better private plans becomes very important.

Without going into great detail, we wish to support certain recommendations in connection with vesting, et cetera, that should be considered for implementation in any pension provision:

(a) The minimum vesting for all employment pension plans should be one year after age 25.

(b) The recommendation in this committee's first report that any refund on the termination of employment of unvested employees be equal to at least the contributions made with interest calculated at one per cent below the annualized rate paid by chartered banks on non-chequing accounts is a good one.

(c) The recommendations of this committee in connection with increased portability of benefits as shown on the bottom of page 13 and on page 14 of report number one deals with this matter in a manner which our council regards as equitable.

(d) On the question of full disclosure by pension plans to plan members, we note recent changes calling for major disclosure requirements and support the idea that all provinces should develop disclosure requirements that are uniform and make available all reasonable information to the employee as to his or her position and the status of the plan.

(e) We support the view that the Pension Benefits Act should be amended to require that employees be allowed to choose at least one member on the body which directs the affairs of the plan.

(f) Persons intimately involved with pension plans have told us that actuarial reports required from time to time can vary substantially with the individual actuary or firm of actuaries. We, therefore, support strongly the idea that regulations should be amended to provide actuarial reporting in compliance with guidelines which will be set up by the Pension Commission of Ontario. We further support the idea that the Canadian Institute of Actuaries should be asked to undertake, in collaboration with the Canadian Institute of Chartered Accountants, the development of a standard form of actuarial evaluation balance sheet which will provide more meaningful information as to the funded status of a pension fund for disclosure to employees.

(g) The following statement appears in the commission's report: "At present, no clear ranking or priorities for claims is set out in the Pension Benefits Act or its regulations. The commission advocates a clear statement of these priorities and endorses the principle that the basic benefits promised at the time of retirement to those who have fulfilled conditions for retirement under the plan should be provided for without reduction, whether or not the plan is funded and before any other allocation is made." This principle for determining priorities when a pension plan is wound up is fair and equitable and is supported by our council.

(h) Though we do not support the adoption of the PURS plan, we believe that the reference in recommendation 105 to the use of unisex tables so that all annuities--money-purchase plans, RRSPs--paid under pension plans will be calculated without regard to the sex of the annuitant, is a forward-looking recommendation and one that should be applicable to all annuities.

Inflation and retirement income: Income from old age security pensions, the guaranteed income supplement and the guaranteed annual income system benefit should continue to reflect the increases in the consumer price index which is the recognized measurement of inflation. Examination of proposals, both in Britain and in Canada, for a separate index for those living in retirement has indicated that little or nothing would be gained by introducing such a new index. The difference between the present consumer price index and the proposed new one would be very minimal indeed.

In our view, the inflation tax credit proposed by the Haley commission, though a sincere attempt to develop a device that might protect all retired persons from inflation to a degree is, we fear, unlikely to be generally acceptable. In Ottawa, for example, the proposal appears to have been received with some suspicion by those whom it is intended to assist. This stems from the accompanying deletions as outlined in recommendation 137 of the commission.

These call for the elimination of the present tax exemption at age 65, the deductions for pension and annuity income and the proposal to tax all income no matter from what source it is received. Examples of the latter are workmen's compensation and war disability and death pensions. It seems probable that the old adage applies here, namely, a bird in hand is worth two in the bush. We note that the select committee also has reservations about this proposal.

Suggestions have been initiated in some quarters that in order to treat everyone alike, those plans, especially government employee pension plans, which are fully indexed at this time, should cease to provide such indexing. We are completely opposed to these suggestions and believe that instead of scaling down inflation compensation to the lowest common denominator of nil, we should strive to upgrade the status of those who now have little or no indexing.

3:40 p.m.

An interim measure which will help some may well be excess interest over real returns as described and supported in the report of the select committee dealing with inflation protection for employer pension plans. The real answer, and one that is fully equitable to all members, is to be found in our basic recommendation to double the protection afforded under the Canada pension plan, for that plan is already indexed.

In conclusion, the following is a quote from the summary report of the royal commission, page 83: "Increasing the CPP is advocated by many as a quick, efficient, and politically feasible answer to a number of perceived needs for retirement income. The commission has examined and rejected this option. The greatest weakness in such an approach lies in the economic consequences for the future. Increasing the moneys available to government for these purposes could serve to fuel more inflation. If changes can be made to allocate the savings into capital investment, an increase in saving could result in real growth in the gross national product. However, mechanisms do not exist for controlling the use of savings in the CPP over the long run to ensure the use as capital investment funds."

We question the logic of the preceding comment regarding the lack of mechanisms to ensure the use of CPP funds for capital investment. True, the current position in regard to Canada pension plan funds is one that it is likely to prove very difficult to adjust because of the situation created when the plan was launched in 1965. This does not have to be the case surely in respect to the additional funds which will accrue if the recommendation for doubling the Canada pension plan is adopted.

It is difficult to accept that our governments, both federal and provincial, could not find a way to achieve the objective which the commission considers desirable, if the political will to do so is there. In this age of electronic marvels and computers that speak and listen it must be possible to devise a means of funneling the additional funds accruing from a doubling of the Canada pension plan into channels which would result in real growth in the gross national product.

Thank you, gentlemen, for the opportunity to present our views on these important issues involving both those currently living in retirement, and those millions who will retire in the future.

Mr. Chairman: Thank you very much, Mr. Hanmer. I must say that was a very well-constructed brief and very instructive as well. Are there questions?

Mr. Van Horne: He could also give some reading lessons. He read it very well.

Mr. Chairman: Yes. Are there questions for Mr. Hanmer?

Mr. Van Horne: Could I ask just one question? I am showing my lack of experience on this committee as a new member but on page six in the inflation and retirement income section, the second paragraph of that section, I am just wondering if either you or Wells Bentley could expand on this a little to help me, particularly in reference to the elimination of the deductions for--I better back up here a bit. The workmen's compensation area, the war disability and death pensions, those are the areas I would like a little clarification on. I would ask either one of you.

Mr. Hanmer: I could do it very roughly. Maybe Mr. Bentley has more specific facts.

Mr. Chairman: It is your brief. We would appreciate having your response.

Mr. Hanmer: Basically, the plan was to provide an exemption that would escalate with the increases in the old age pension and Canada pension plan, and would be tied to an index which would mean that a certain sum of money would be exempt every year and this would escalate. The figure quoted in the report was that somewhere in the neighbourhood of up to $20,000 would eventually become exempt from tax under this proposal.

That is a very elementary description of it. It is listed in recommendations 136 and 137 of the report which perhaps I could read, which would give you a better idea:

"Because the problem of inflation affects all members of Canadian society but especially those on fixed incomes...the commission, one member dissenting, recommends that protection from inflation beyond the level of the minimum income guaranteed to the elderly by government programs be provided for all retired persons in society up to a maximum level constant with desirable social objectives...The commission therefore makes the following recommendation...that the government of Ontario seek changes in the Income Tax Act (Canada) and the Income Tax Act (Ontario) to introduce a refundable inflation tax credit for all residents of Ontario aged 68 and over to protect from inflation a measure of total retirement income above the level of the government floor programs, OAS, GIS, CPP and Gains, in step with cumulative changes in the consumer price index." One commissioner dissented from this recommendation.

"An appropriate amount for this protection might be twice the total of the OAS pension and the maximum CPP pension for the year. For 1980 this would afford protection for $11,925.20 of retirement income in addition to the OAS and the CPP which are already fully indexed." So twice $11,925, almost $24,000, would be exempt under that deal.

"Recommendation 137: With a view to contributing to the financing of such inflation protection, the commission recommends: (a), to make all income from whatever source subject to income tax, including in particular workmen's compensation payments"--and veteran's payments and so on--"(b), to eliminate the present tax exemption related to age 65; and (c), to eliminate the present tax deduction for pension and annuity income." That is on page 71 of the report.

Mr. Van Horne: I realize that. I will just have to keep reading it over.

Mr. Chairman: Some of it is certainly food for thought. You have to mull it over very carefully. Are there further questions? Your presentation has been so clear and it is not ambiguous in any respect. You message is quite succinct and there are no further questions.

Mr. Hanmer: Thank you, Mr. Chairman. If I might add one comment on another area, the report that came out on Monday, the Elderly in Ontario, is a document that will be extremely useful to us in the field. I am retired myself now and this is something that we had hoped would come along. I see Lawrence Crawford is going to head up a new secretariat. I have worked with him for many years.

Mr. Chairman: He is an excellent person.

Mr. Hanmer: There is a lot of work for such a secretariat to do, which is extraneous to the work of this committee, but in terms of the total picture it is important.

Mr. Chairman: Mr. Crawford has had a lot of experience in the field and he is a very sensitive, sensible and knowledgeable man. He will do a good job on that. Thank you for appearing.

Gentlemen, we should probably discuss our agenda for the balance of the week and next week and the week after, because the Ottawa-Carleton Board of Trade will be in tomorrow morning. Then on Monday, as you can see, we have two delegations in the morning and two in the afternoon. On Tuesday, we have one delegation in the morning, which is the Institute of Chartered Accountants of Ontario, then in the afternoon two delegations. We are trying to arrange for Mr. Gillies' constituent--

Mr. Gillies: Is that Mr. Meserve of the auto parts manufacturers' association?

Mr. Chairman: Yes. We are trying to arrange for him to come in on Wednesday morning. That has not been confirmed yet, but if that is so, that will leave us Wednesday afternoon, Thursday and possibly Friday. You have in front of you, which I brought to your attention, some statistical data which was put together by the pension policy unit of the office of budget and intergovernmental affairs, Ministry of Treasury and Economics, as a result of our request to Mr. Stouffer. That was in an area that we were and are concerned about in regard to this seemingly large group of persons who are not covered by any kind of pension plan.

3:50 p.m.

I have asked Mr. Stouffer if he could, with any support staff, come in and review this report with us. I thought that might be of some assistance. I was hoping that he might be able to do that Thursday or even Friday of next week. He tells me he is going to be away a part of the week and the support that he would want on that would be away I think most of the week, which would make that maybe not impossible but unlikely for next week. I am suggesting that he come in on Monday, February 1, so that we will have that in advance of our deliberations in connection with possible recommendations, if that is satisfactory to the committee members.

The staff has put together a compendium of recommendations of the royal commission with which we have not as yet dealt in our interim report, which are synopsised and cross-referenced to other issues that we will have to deal with in order to come forward with recommendations in regard to that. That is a fairly large document. I think it is about 28 pages. I am going by memory now. It has just been put together now and it is being duplicated for all members. I thought it would be worth while for us to review that so we have an overview of not only what we have done but the issues still to be addressed so that we can be better prepared to deal with some draft recommendations of our own.

I thought we could review that in a preliminary way on Thursday, possibly Wednesday afternoon. Mr. Bentley tells me he is not able to be here Wednesday afternoon but he can be and will be here Thursday of next week so we could review that document then. Basically from then on there will be meetings of the committee for purposes of consideration of the report.

I gather Friday, February 5, is a day that our New Democratic colleagues will not be here because of an event of some

significance to them and to the province. I would want to make sure that where there are matters coming on for decision by this committee, no decisions or motions be passed when we don't have full representation of the committee. That representation at that time is unavoidably absent, and I would want to make sure we have an understanding in the committee that there would not be motions put forward or decisions made at that time.

Two colleagues of mine and of yours in the Conservative caucus have indicated they will be absent on Thursday and Friday of next week, and I have indicated to them they will not have to be worried about us as a committee entertaining resolutions or motions that are going to require their presence.

Apparently, they have the opportunity of taking on a mission to the mother of parliaments. If that is agreeable, with the exception of next week and Friday, February 5, the balance of the time will be available for discussions of our report and both documents that I mentioned. That is my proposal that I put to you, if that is agreeable.

Mr. Mackenzie: I take it what you want, Mr. Chairman, is the assurance that on the days that we are gone, the one day or part of it, whatever the case may be, and the days that some of the Tory members--I do not know if Liberals members are involved--are visiting the mother of parliaments, while we may discuss things, there will be no motions moved or what have you.

Mr. Chairman: I would assume that we would not proceed anyway but I--

Mr. Mackenzie: No problem with that from our point of view.

Mr. Van Horne: That implies we are sitting Monday through Friday in both weeks.

Mr. Chairman: The last point I want to bring out is for next Friday. Right now, it is up in the air. We have it scheduled and it will depend on how long it takes us to go over the material we have, that fairly large compendium we have and will be distributing the first of the week. I would like, with your permission, to leave Friday in abeyance. Maybe we will not have to sit on Friday of next week.

Mr. Mackenzie: (Inaudible) and do sit on Friday, but we really have no strong feelings about it.

Mr. Chairman: It may be we can do both. Any questions on that?

Mr. Williams: I really do not think it would be appropriate, with respect, for the committee to sit at all on Friday, February 5. I have never yet sat on a committee when we were in the deliberation stages, even if we are not making decisions, to deal with the key issues with one whole caucus being absent. I do not think it is fair to that caucus.

Mr. Chairman: I think we have already agreed we will not be making decisions.

Mr. Williams: I would prefer we did not meet at all that Friday, when one caucus cannot be here, even if we are not making decisions.

Mr. Mackenzie: (Inaudible) sit the previous Friday because I would sooner see us not sitting on that Friday although, as I say, we are not making any point of it.

Mr. Van Horne: I agree with what Mr. Williams and Mr. Mackenzie have said.

Mr. Chairman: That is fine with me. I think that is quite in order.

Mr. Van Horne: To sit next Friday, but not on the fifth.

Mr. Chairman: Not to sit Friday, February 5.

Mr. Williams: On the preceding Friday, which is next Friday, I think the time might be better served if we were not formally sitting and we had at least one day's breather for us individually to collect our thoughts on everything we have tried to absorb here in the past couple of weeks and have an opportunity--I presume we are all keenly enough interested that we would want to prepare ourselves as fully as possible for the deliberations of the following week--to at least have one day's breather to get our thoughts together on this. If we are going to do a bit of an overview on Thursday, as you say, as a committee, I think that will bring us right up to date and that will give us the Friday and the weekend to get our thoughts together.

Mr. Chairman: We had not originally planned to sit that Friday, as you will recall, Mr. Williams. But we backed up some of the delegations to clear--

Mr. Williams: That is true.

Mr. Chairman: --that particular day. But it is certainly agreeable with me. We should be able to finish that material on Wednesday afternoon and Thursday and that would leave January 29 and February 5 for members (inaudible)

4 p.m.

Mr. Mackenzie: Why don't we play it by ear, Mr. Chairman? If we don't need to use it, then we don't need to use it. It may be that we will. That is something you may get a better idea of once you get into it next week.

Mr. Chairman: That was my original expression, but as I say, I am easy. I am hopeful we will not have to sit on Friday, but if we have to carry on, then I guess we will.

Mr. Mackenzie: I have another question. In terms of your scheduling, Mr. Chairman, once we get down to the discussions and the summary and try to start drafting the report in that last week or two, have you looked at the possibility that final drafts may require--is there, I don't even know if there is, a day available before the House goes back in some time? We may have to go over whatever we come up with for the (inaudible)

Mr. Cureatz: Mr. Chairman, I like Mr. Mackenzie's suggestion very much. Inevitably, it always seems we need a day in there.

Mr. Mackenzie: It never seems (inaudible) have the final things to look at or go through.

Mr. Chairman: We will certainly make sure that--

Mr. Mackenzie: I am perfectly willing to leave it in your hands. I am just wondering if you had considered that. It may be something that has to be looked at.

Mr. Chairman: Yes. I am conscious of that.

Mr. Van Horne: We can sit during the school break.

Mr. Chairman: I am conscious of those problems and I want to make sure we are all here, that is all, so that when there is a report, it is a report that has been reviewed by everyone and not contrived by the chairman. Okay? I think we have an understanding on that.

Mr. Williams: Just one further thought, Mr. Chairman. I understand we are now limiting ourselves really to three and a half days in which to make some major recommendations.

Mr. Mackenzie: That is why I thought we might have to leave in the chairman's hands the possibility of a further date somewhere down the line to finalize it.

Mr. Williams: Yes. I am finding it very difficult to conclude that we can resolve all this in three and a half days in that week of February 1. Have you had any discussion with the powers that be as far as getting further time available, Mr. Chairman?

Mr. Chairman: No. I haven't, because being a Conservative I am an eternal optimist and always confident there is no task before us we can't discharge. I think we will work it out effectively, efficiently and economically.

Mr. Williams: There is just one date I would like to get resolved now, if we could, and that is Friday, Mr. Chairman. There were some internal problems that did not necessarily affect the committee as a whole, but I would like to get resolved if we could. If we weren't sitting, it would uncomplicate a few things on this side.

Mr. Van Horne: Is there some difficulty with Conservatives members who cannot sit next Friday?

Mr. Williams: I can't speak for all the members. I think some could be here. I don't know whether I could be.

Mr. Chairman: How many cannot be here next Friday? Two, three--

Interjection: We still have four.

Mr. Chairman: There will not be any votes next Friday. It is agreed--

Mr. Mackenzie: Did we agree there would be no votes?

Mr. Chairman: Yes, that we would not be able to vote.

Mr. Jones: I can't be here.

Mr. Chairman: If you can't be here, you are going to have some more homework on Saturday and Sunday.

Mr. Williams: There are no deputations scheduled for that day. Is that correct, Mr. Chairman?

Mr. Chairman: No.

Mr. Williams: You are hoping to schedule two on the Thursday.

Mr. Chairman: Are we all agreed? The committee stands adjourned until 10 o'clock tomorrow morning.

The committee adjourned at 4:04 p.m.

SELECT COMMITTEE ON PENSIONS

OTTAWA-CARLETON BOARD OF TRADE

FRIDAY, JANUARY 22, 1982

SELECT COMMITTEE ON PENSIONS

CHAIRMAN: Taylor, J. A. (Prince Edward-Lennox PC)
Brandt, A. S. (Sarnia PC)
Cousens, D. (York Centre PC)
Cureatz, S. L.; Deputy Speaker (Durham East PC)
Gillies, P. A. (Brantford PC)
Haggerty, R. (Erie L)
Jones, T. (Mississauga North PC)
Mackenzie, R. W. (Hamilton East NDP)
McClellan, R. A. (Bellwoods NDP)
Riddell, J. K. (Huron-Middlesex L)
Van Horne, R. G. (London North L)

Clerk: Arnott, D.

Researcher: O'Mara, Dr. J., Legislative Research Service

Consultant: Bentley, W., Superintendent of Pensions, Pension Commission of Ontario

Witness:
Ferguson, J., Honorary Treasurer, Ottawa-Carleton Board of Trade; President, JRF Financial Consultants Limited

LEGISLATURE OF ONTARIO

SELECT COMMITTEE ON PENSIONS

Friday, January 22, 1982

The committee met at 10:09 a.m. in room No. 151.

OTTAWA-CARLETON BOARD OF TRADE

Mr. Chairman: Gentlemen, first of all, I would like to welcome Mr. Riddell to the committee.

For purposes of the record, we now have in your binders, exhibit 170, which is the Canadian Chamber of Commerce submission; exhibit 171, the committee research officer's paper, which is background information on the social security comparisons; exhibit 172, also from the committee research officer, which is a summary of presentations of January 20 and January 21; exhibit 173, a submission from the Council on Aging of Ottawa-Carleton which, for some unknown reason is dated January 27, 1982.

You also have in your binders exhibit 174, which is background information from the committee research officer, dated January 21, 1982; the subject matter is the excess interest approach; exhibit 175, the submission of the International Brotherhood of Electrical Workers, Local 105, background information of the thirtieth convention report of the law committee; and submission of the Canadian board of directors of the International Foundation of Employee Benefit Plans, to the Honourable Allan MacEachen, Minister of Finance, regarding the November 12, 1981 budget.

This morning, we have with us Mr. John Ferguson, honorary treasurer of the Ottawa-Carleton Board of Trade, who is also president of JRF Financial Consultants Limited. I understand he has a visual presentation to make as well as an oral one. We are in your hands and when you wish us to dim the lights, we will do so.

Mr. Ferguson: Thank you very much, Mr. Chairman. Perhaps I should give you just a minute or two on my own background because it has a bearing on some of the things I may have to say. I spent some time in industry, working in finance for a large pulp and paper company; I studied return on total investment and did some research work there.

Later, I was economist and director of research for Nesbitt Thomson in Montreal and was involved in financial markets and corporate finance. I joined the Bank of Canada as securities adviser in 1961, and was there for the normal term of a governor, which is seven years. I left in 1969 to set up my consulting service to specialize in pension fund business.

I first did surveys of pension funds from coast to coast for Mr. Paul Hellyer, when he was running the task force on housing, primarily to find out how they operated and to what extent they might be providing funds for mortgages. I found in surveying

pension funds across the country that they were not very well managed in most cases, and got very low priority and so on.

I developed some management studies of pension funds. The first one I did was Air Canada's. Later, I did a study of the plans for the Saskatchewan government, the Toronto city firemen and the CBC. Then I set up an investment counsel firm to manage pension funds. At the moment, I am investment counsel for the CBC pension fund, which is about a $200 million fund, the city of Ottawa and a number of other funds. I specialize in trustee funds.

During this period, I found that the field of pension fund management is at about the stage that medical science was about 150 years ago, when doctors bled everybody to cure all diseases. Most pension funds in this country are being measured on a performance basis; you look to see what you could have received for the assets if you sold them at the end of the last quarter, or at the end of any quarter in the last four years. So, I developed what is called a going-concern approach to the management of pension funds--it looks into the future to find out how much money there is going to be to pay benefits--and have developed, for my accounts, measurement services.

It seemed to me, because I was also interested in small businesses, that there must be some way in which we could apply all of the research we had done to small businesses. I was one of the founders of John Bulloch's organization, and was his director for the first six or seven years. After I am through here today, I am making the same presentation to the Canadian Federation of Independent Business, John Bulloch's organization.

As everyone was aware, one of the weaknesses in private pension funds is lack of coverage, especially for small companies. It seemed to me there is a need to set up a pooled fund, multi-employer, but not multi-employer funds in the sense that they have existed before for a single industry. There is a need to build up multi-employer, multi-industrial funds. It seemed the logical sponsors of such funds are the local chambers or local boards of trade.

I discussed with John Bulloch the possibility that his organization might sponsor a pension plan for small companies, but they are not organized to do it. They don't have offices in various centres. They couldn't handle the administrative work. The local chamber is already set up. They usually have permanent staff, and they are already providing group life, disability insurance and that sort of thing, and it seemed there was a need to bring one more thing into their package and that is a pension plan for small companies.

In Ottawa we set up a task force two and a half years ago with myself as chairman and with a lawyer, a banker, an actuary and so on. We put together a pension plan for small businesses that we think is the best thing there is to offer in Canada today. One of the very important things about it is its flexibility. We can set up a custom-made pension plan for an individual company no matter how small. It will still come under the umbrella of the overall plan that is being set up for the Ottawa-Carleton Board of Trade.

In doing this, we have considerable encouragement and help from people like Wells Bentley and even Revenue Canada taxation, because all the way through we had to check with them to make sure we were on the right road. I didn't realize it would take so long. It took two and a half years to put this thing together.

I have a very small presentation, about 16 slides or so, that I would like to show because it will draw attention to some of the particular features of this pension plan. Could we have the lights off now?

Mr. Williams: While they are preparing the lights, what is the current membership of the board of trade and how many have started to participate in this plan?

Mr. Ferguson: We are just getting going now. My own little company was the first to participate. We have been making contributions to this plan since last March. We got the paperwork flowing. We have an administration contract set up to handle all of the personnel records. Now we are getting interest from other boards and other chambers across the country. We have had letters from Yellowknife and St. John's, Newfoundland; we have met with the chambers in Sault Ste. Marie and Sudbury. We are making a presentation to the Oakville chamber next month. They have said they would like to join our plan.

Wells Bentley tells me there is no reason why, if this plan is well set up, it need be restricted to the members of the Ottawa-Carleton Board of Trade. It could be expanded to take in other chambers and other boards across the country.

Mr. Williams: Coming back, what is the membership of the board at the present time?

Mr. Ferguson: There are 1,400 members. One of the important things about a pension plan like this is it may help to bring in new members to any board or any chamber, and once they are in, it may help to keep them in because, as you are probably aware, if chambers don't provide good service continually, they often lose members. It is very important to keep members.

Mr. Williams: Of the 1,400 members, how many have shown an interest in the plan or actually participate?

Mr. Ferguson: There are quite a few. We are talking with a number of them now. They are just about to sign the proper documents to become members of the plan. These would include the Ottawa Real Estate Board, the retarded childrens' association, a law firm that has about 12 employees, and so on.

You will probably recognize that building in the background. It is the Peace Tower in Ottawa. This introduces the Ottawa-Carleton Board of Trade members' pension plan.

This is, as I mentioned before, a multi-employer plan that is also multi-industrial. As you know, chambers of commerce or boards of trade have members in many different industries from service stations, to lawyers, to doctors, to almost any kind of industry.

This slide presentation was produced mainly for other chambers and other boards.

10:20 a.m.

It is a multi-employer plan that will provide employers or members of the board or participating boards and chambers with retirement benefits to supplement those available under CPP and so on. It is a money-purchase plan. In studying defined benefits and defined contribution plans, it seems the more you get to know about them, the more you realize that the money-purchase plan does provide the answers to a lot of problems in this whole pension fund field.

I notice that Peter Drucker has just written something on pension funds in the United States. One of his thoughts was that defined benefit plans should be converted to defined contribution plans, which is a money-purchase plan. There are also trustees. We have a board of trustees set up to administer this plan. It is very flexible. In the application for employer to join, there are quite a few options he can choose. He can decide on which class of employee may join this plan, what their service requirements are, vesting and locking in and all the rest of it.

It is very easy to administer. It is easy to understand. We are providing it with an ongoing investment management service. My own firm has a contract to act as investment counsel for this firm for a dollar a year until we get the thing really going. I do not know if you are aware of it, but one of the weaknesses of money-purchase plans in the past has been the fact that there has been market risk related to them. If you had to leave a pension plan to buy an annuity at a time when the market is depressed, you might find that you are not doing very well; you do not have too much money available to buy a pension annuity.

We have developed a going concern approach that does not value the assets regularly on a current market liquidation basis, but values them on what we call a going concern basis, which involves using present values of the future streams of cash that those securities were purchased for in the first place. We are already using this in our larger accounts and we are going to be using it for this pension fund for small companies.

We have already talked about that. At the end, when a person goes on retirement, of course, the moneys that have accumulated are used to buy a pension annuity from an insurance company and we get regular quotes from quotation people, from annuity brokers, because it is a pretty competitive game and you have to shop for your annuity.

I mentioned before that we have a board of trustees set up. At the present time this is a board of six trustees. It may be expanded. There is a representative from the board itself, the executive director. There will be eventually two employees of participating employers, two employers and one outside person.

I mentioned earlier that in the documents we have left with you we have left an application form so that you can see from it

the number of options that the employer can decide for himself. When you are looking at small companies, they all have different attributes, they all have different requirements and they need flexibility perhaps more than anything else.

The Sault Ste. Marie Chamber of Commerce made a survey of pension funds about a year ago. They found there was need for a pension plan for small companies in their own city. In looking at a number of pension plans that were available, they chose ours as that with the greatest degree of flexibility.

If the contributions are identified for each particular person and the investment income is properly identified also in relation to those contributions, you know exactly what is at credit for each participant .These can be transferred to other pension plans or to RRSPs on termination of employment.

One of the problems we found was in trying to determine how the accounting of all the employee records and all the rest of it could be carried out. We looked around Ottawa. We talked with the Metropolitan Life Insurance Company and with trust companies to find out if they could put all of the employee records on a computer system. We could not find anything in Ottawa and we had to come to Toronto.

There is a firm called Corfax Benefit Systems Limited that was already set up to do this sort of thing for other pension funds. We found they could provide this service at very low cost because small companies cannot get involved in a lot of bookkeeping and administration work in relation to their pension plan.

This will be included in the report we will be making to each of the employees at least annually. It indicates for each employee the amount of the employer's contributions. Those next two columns should have a heading "Employee." They show the employee regular contributions and there are provisions for additional voluntary contributions.

We have also found a way of determining the investment income each quarter and distributing that income in relation to the contributions on a time weighted basis so that at any one time the employees can know what they have at credit in the pension plan. They may get this report once a year or more often, but it will also be possible to give it to them quarterly. This is different from most money purchase plans where they are unitized. The plans of trust companies and insurance companies are unitized and those units go up and down in relation to market values. It does not make much sense but that is the present state of the art or science.

I do not know how the Royal Bank's name got in there. You do not use the name, you usually say a chartered bank. They are also the banker for the Ottawa-Carleton Board of Trade. They are also custodian of securities for some very large pension funds in Ottawa, so they are able to do the job.

I mentioned before that we are valuing the assets on a going concern approach. The reason we can do this and provide sound accounting and valuation techniques is that this is a private

pension plan. You must belong to the local chamber or local board of trade in order to participate in this plan.

The trust companies with their pooled funds, when they first started them back in the 1950s, would have preferred to value them on this basis but when they presented their applications to the securities commission, they were told they had to value mortgage funds and bond funds in the same way as common stock mutual funds. I know a gentleman who is 71 this year. He put most of his money into a mortgage fund and he is heartbroken because the market is down because interest rates have gone up and he will be taking out perhaps less money than he put in.

So it is a money purchase plan that is trusteed. There are customized features that can be tailor-made to meet the requirements of the individual company employer. It does not have 100 per cent portability. Portability has different meanings, as you know, but the assets are transferable, that is important. It is easy to understand, the administration has been well thought out and it is fairly easy to handle. Professional investment management specialize in this field. Because we are long-term management people, we do not handle any individual accounts, we take a longer term perspective than most.

This slide was intended for local chambers to indicate to them that this could be very useful for them. This is our parliament building and that is a vice. If the private sector does not get busy and do something, then there will be government pressure to bring about mandatory plans.

I have always believed that the private sector should do more than it does in this economy of ours so we could have a healthier economy, but too often we leave vacuums. When those vacuums are left, there are public government people ready to fill those vacuums. We should not leave those vacuums in the first place. So it is up to the private sector to get busy and create things like this.

That is the extent of our slide presentation.

<u>10:30 a.m.</u>

<u>Mr. Chairman</u>: We will get the lamps lit so we can see one another.

Mr. Ferguson, that was an interesting presentation. It had an interesting message at the end about the pressure play, the squeeze of government. I think you are right that if there is a vacuum, something is going to fill it and usually government is ready or sometimes anxious to fill those vacuums.

I want to ask you about the valuation of the assets on an ongoing business basis. That concept would apply, then, whether there is a transfer because of carrying that pension to another fund or whether it is retirement or for any purpose, is that right?

<u>Mr. Ferguson</u>: If a person leaves this plan on termination of employment there will certainly be identified all of his assets and these will be based on the units which are dollar bills, rather

than the unitization that trust companies have. So there is no question, the assets in the plan itself will be valued on a going concern basis.

One of the advantages of this plan is that you have many members and they are small companies. They protect each other from market risk in the same way the chartered banks are protected from having everyone take out their deposits on one day because they have so many depositors. I started this at the Bank of Canada and over the years it has developed a going concern concept because I felt the work that has been done in the United States on the valuation of assets for pension funds has taken a wrong direction.

There have been major studies done in the United States by some well known economists who have done much research on how to measure the performance of pension funds but never did any research on how to value the assets. So we have the rather peculiar situation on this continent today of investment managers throughout the country managing assets on a market performance basis which means pension funds don't normally buy stocks when they are cheap but buy them madly when they are dear. At the same time the Canadian Institute of Chartered Accountants, the Canadian Institute of Actuaries and the Financial Executives Institute all have committees set up to try to determine how assets should be valued. So there is this confusion in the whole field.

My own research on this business has determined that there are some valuation techniques that we don't have to invent. They are already illustrated and discussed in book like Ross Skinner's book on accounting principles written for the CICA. There are already techniques that will allow you to value assets of pension funds on a cash discounted basis, present value of future stream of cash. Even with banks today, there has been a new Bank Act which allows banks to now value their bonds on this basis. They call it amortized cost but it is simply the present value of the remaining stream of coupon payments and the principal from those bonds.

Mr. Chairman: Is that relatively risk free? In other words, is there a minimum element of speculation as to the future cash flow in determining the present value?

Mr. Ferguson: No more than there is in any business. As you know, any business at all must look to its liquidity requirements and I found years ago when I was doing research in corporation finance there were two definitions of working capital. One was current assets minus current liabilities. The accountants will look at that to determine the solvency position of the company, but when you talk to the president of the company he can only think in terms of total current assets. That is his working capital because that is what he has to work with.

Realizing there is this going concern concept, I have been using it in my accounts starting with the Bank of Canada's pension fund, the CBCs and others for quite a few years. One of the important things about this is it has insulated it to some extent from market influence so that when the stock markets are very low they are continuing to buy stocks because they are not looking at the current market performance; they are looking at the increase in

earnings and dividends of the companies whose stocks they are buying. They buy more as they are looking at the stream, I think, that is going to be coming in for the next 15 or 20 years, that sort of thing.

Mr. Chairman: One of the problems as I understand it and as this committee has heard, is the valuation of an individual's benefits under a plan so that if there is vesting and locking in and, say, a transfer, the determination of that value to enable the transfer or portability--

Mr. Ferguson: It is a big problem with the defined benefit plans but I don't see it as problem with the money purchase plan, the defined contribution plan. There may be problems later on. If anyone left this plan and put his money into another plan, then there may be problems from that point on because, as I mentioned before, actuaries, accountants and investment managers are not working together in the defined benefit plans. They are working in opposite directions.

One of the very important things about this money purchase plan is that the moneys related to each contributor are identified. As far as the benefits that are purchased with that money are concerned, then you have to go to the annuities that are purchased.

Mr. Chairman: Yes, but I think what you have pointed out is that when a person is at the stage of purchasing an annuity because he is retired, then he doesn't suffer the exigencies of the marketplace at that particular moment.

Mr. Ferguson: That is right. This is extremely important.

Mr. Chairman: Which doesn't create any abnormal residual risk to the balance of the participants in the plan.

Mr. Ferguson: That is right. If you know what the composition of your participants is then you can purchase your bonds and mortgages. Mortgages are good because they give you multi-cash flows of not only interest but principal.

If you have been buying common stocks for a number of years, and especially if you start buying them when the market is low as it is today, you are going to find they are your most marketable of securities. Therefore, it is quite possible to manage pension funds in a businesslike way, the way any business is handled.

I have found that most investment counsellors are called "money managers." It is a misnomer. Really the money managers are the Bank of Canada people and the chartered banks who are managing financial assets. If you were to put all these stocks and bonds in a pile and burn them you wouldn't have destroyed anything, but when you buy a mortgage you are buying a mortgage that is backed by apartment buildings or commercial properties on which there are rents and all the rest of it. The same principles of business administration that determine the management of those things should flow through to the management of the financial assets that represent them and the same valuation techniques as well.

Mr. Gillies: Mr. Ferguson, I have to say it looks like a terrific scheme and one that perhaps a lot of the other boards of trade and chambers of commerce could adopt across the province.

Mr. Ferguson: We hope so.

Mr. Gillies: A couple of questions come to mind. We on the committee feel that probably the most serious problem we face is the coverage problem. The types of members in your organization would include a number of the businesses that statistically show a very low participation rate in pension plans--retailers, wholesalers and so on.

My question to you is, do you have a breakdown on the membership in your plan that would indicate you are reaching into that sector, or do you find that most of your participants would still be in the industrial sphere?

Mr. Ferguson: No. We expect it to include retailers and even medical centres where they have a number of employees. This plan is not for the doctors but it is for their employees; service station people, travel agencies, food catering firms. We can't boast that we have made a lot of progress. We are just embarking on a marketing program in Ottawa.

By the way, we are doing this on a part-time basis. We are trying to do our other jobs at the same time and we don't have budgets, so we are all contributing to it. We are embarking on a major marketing program to try to get this thing really rolling in Ottawa, and if we can do that, there are places like Sault Ste. Marie and Oakville ready to join our plan.

Mr. Gillies: There would be no barrier to part-time employees?

Mr. Ferguson: No. I have checked that out with Revenue Canada. This is very important, particularly for women. This is of particular advantage in that respect.

10:40 a.m.

Mr. Gillies: Absolutely. Finally, you mentioned in your presentation that the plan would not be completely portable but it would have some aspects of portability. I wonder if you can enlarge on that. Specifically, would it be completely portable among members of the Ottawa-Carleton Board of Trade?

Mr. Ferguson: Yes. If an employer has employees under this plan and has full vesting, then it is easier. Everything is transferred to another employer who may also be a member of the board of trade. If one employer does not have full vesting yet, if he has decided he will have vesting after three years and a person leaves at the end of two years, then he can take only his own contributions and investment income with him and not the employer's.

If you want 100 per cent portability, you need something like a government plan that is completely inflexible and is

standardized. You have to sacrifice some degree of portability to get the flexibility that small companies require. I would say there is a much greater degree of portability here than there is with most other kinds of plans.

Mr. Gillies: Then presumably on termination, if an employee was leaving the employ of any company under the board of trade and there is a locking-in provision, he would be able to carry with him at least his proportion of contributions.

Mr. Ferguson: Yes. In my own little firm when we first joined this plan, we opted for immediate vesting and I think we were locked in after one year. Also, we have made it compulsory for any new employees. This is one of the options.

Mr. Williams: I appreciate that your plan is just getting off the ground, so to speak.

Mr. Ferguson: That's right, we are learning as we go.

Mr. Williams: You may not have great numbers of participants at this time, but of those who have been among the first to join, how many of them have indicated an interest in picking up the additional benefits that are available under the plan? In other words, of those who have joined the plan, has it been to simply fit the benefits of the basic plan, the one per cent up to $3,500, or have some of them or most of them also shown an interest in taking advantage of the availability of the additional voluntary contributions that are available under the plan?

Mr. Ferguson: There are two people looking at the plan now who are just about to sign up. One is the real estate board. They have had their employees under a career average plan with an insurance company for a number of years and they are a little sick about it. As you know, career average plans do not provide very much benefit on termination. So they feel very much that this gives them the flexibility and the opportunity to provide better pension benefits.

By the way, we did some research and you will see it in the documents I have given you. We did a study to see what would be the difference between a career average plan, a final average plan of the defined benefit type and a money purchase plan. Based on this, I started right back in 1947 with a man earning $3,000 a year and building up to a point 35 years later. We have made a comparison here on a retrospective basis.

This is the second sheet in those three sheets and it indicates that at the end of 30 years, with a career average plan, using the figures we used, a man might get a pension of $8,294 which is 27.7 per cent of his final salary. With the final average he would do better, he would have a pension of about $18,000, but with the money purchase plan he would have a pension of about $20,000, which is a greater amount of money.

The one important way in which a money purchase plan is quite different from the defined benefit plan is that any work that is done to build up the assets, that is, the quality of investment

management, is going to be reflected in the amount of money that is available to buy a pension annuity. Actuaries have not yet found a way to give any credit to the quality of investment management in the management of defined benefit plans.

It does not matter to an investment counsel how much work he can put into building up the assets for a private pension plan. The actuary does not pay any attention to this as a rule. He may accept the value of the assets, but when he uses a six or seven per cent rate to determine the present value of the benefits, he is assuming the value of the assets is also the value of a stream of cash with a six or seven per cent rate.

I have found in the last 10 years that it has been very discouraging being an investment counsel because, no matter what you did, there was no way the actuary could find a way of recognizing what you have done. Because of this, I have had this funny actuarial science myself.

I have been dismayed and I do not wonder at all that the Royal Commission on the Status of Pensions in Ontario has said we must legislate some way of standardizing the methods for determining the present value of benefits. They do not expect much help from the actuarial profession.

Mr. Chairman: If I may just ask a supplementary: Then there is no incentive really to excel in terms of investment performance. All you have to do is make sure they cover yourself so that you are not criticized for bad performance.

Mr. Ferguson: You are quite right, Mr. Chairman, there is not much incentive. That is why in North America many of these pension funds are playing games. Their main objective is to be in the upper quartile of a group of pension funds that are being measured on a liquidation basis. When you consider that the objective of a pension fund should be to accumulate at minimum cost the portfolio of securities with the maximum cash flow that would be there to pay benefits, it almost seems it is like medical science 200 years ago when you bled everyone for every disease.

Mr. Chairman: Sometimes using leeches.

Mr. Ferguson: Yes, that is right. I was looking at a Dickens' play the other day and they did use leeches for that purpose.

I found also that part of the reason why there is not too much incentive for investment managers to develop that cash flow that the actuary can look at and determine will be there to pay benefits is that many of our largest corporations are not too interested in the pension plan as far as performance is concerned.

They do not mind unfunded liabilities because, after all, the more money they put in the pension plan the less pressure they are going to have put on them to meet other kinds of employee benefits. Also, it is not money lost to them because the corporation is still at risk. The more money you put in this year the less you will have to put in at some time in the future.

There has not been a great deal of incentive on the part of businessmen to look at the pension fund as a business. He tends to delegate it to so-called experts and this is a great mistake because what pension funds need more than anything else is the application of the same business principles that businessmen apply to their own businesses. I did not mean to get involved in this, but it is something that has very much concerned me.

Mr. Williams: Coming back to the voluntary additional participation, where would that leave a participant vis-a-vis tax benefits that might accrue on the front end?

Mr. Ferguson: One of the main reasons for having additional voluntary contributions is if they have been accumulating something in a registered retirement savings plan they can transfer it into this as an additional voluntary contribution. Also, if they terminate, this is not locked in. They can take that out again--this is sort of a savings plan--but also we mentioned earlier you can get a much better pension out of the money purchase plan, but it depends very much on when you join it.

This is great for the young people because they have many years to accumulate a lot of assets. It could possibly buy them 100 per cent pension or 125 per cent of their final years' salary if they have been in long enough. But if an older person joins this plan, it may be he will want to put in additional voluntary contributions to build up the assets that will buy the annuity. It might be in some cases that the employer himself will make special bonuses to older employees, with the provision they will be put into this plan as an additional voluntary contribution.

Mr. Haggerty: To follow on Mr. Williams' questioning, what is the number of participants required to make it a sound and efficient program?

10:50 a.m.

Mr. Ferguson: I wish I knew. We are operating at such a low cost that we are going to run this even if we do not build it up. But we are aiming for 500 employees by May 1 to benefit from the lower cost that is involved in using the Corfax people who are keeping all of our records on computer for us.

We hope to get up there by May 1 and then we hope that our marketing program in the next couple of months will bring in more and that we will get up to 2,000 or 3,000 individual employee members in Ottawa. When we have done this, and we have proven that we can do the job, we want to take our marketing thing as a software package and make it available to Oakville, Sault Ste. Marie or anyone else who may wish to use it.

By the way, there is one weakness in this plan that we hope to remedy at some point, that it is an employer-employee related plan. It is not open to single proprietors and it is not useful for the partners of law firms or accounting firms. This concerned us a bit because we have members of our board who are partners of accounting firms and law firms, and we have single proprietors.

In discussing this with both Wells Bentley and the Revenue Canada-Taxation people, we were told that we can set up a sister plan called a group retirement savings plan that could be a plan of the Ottawa-Carleton Board of Trade which would allow us to cover all of our members. There some other advantages of this too. If anyone in the employer plan were to terminate employment and not want to take a deferred annuity, he might transfer the funds into the group RSP. This would help to create greater portability.

Mr. Haggerty: You are not saying that lawyers are in a position to have better tax incentives and there is a better deal for them if they stay out of something like this and perhaps go to the RRSP or what, or there are advantages for him.

Mr. Ferguson: What I am saying here is they are not allowed to join our plan as it is set up now, but they could join a group RSP plan and could be putting their money into the same pooled funds with the same kind of management. Most lawyers are so darned busy they often do not have enough time to put into the management of their own assets, so this could be very useful for them.

Mr. Chairman: On that point, if I might ask a supplementary, there is the point you have made which, I gather, is where you have 100 per cent contribution by the employee, then they cannot register in a plan, so that a self-employed person could not participate in a registered plan under our present regulations.

Mr. Ferguson: That is right. Under this plan, this is an employer-employee related plan.

Mr. Chairman: Yes, I understand what it is, but what I was going to ask you is whether you would support an amendment which would enable 100 per cent employee, say, contributions to be eligible for membership in a plan. I say that because yesterday we had the International Brotherhood of Electrical Workers here who were deducted anywhere from 50 cents to $1 an hour from the hourly rate for pension benefits, yet they could not participate because there was no employer contribution.

Mr. Ferguson: I see. We would welcome anything which would permit us to make this plan more flexible so it could take in single proprietors and individuals because they could then benefit from everything we are doing for all the rest.

Mr. Chairman: What I was putting to you was eliciting your comments in regard to possible change in the legislation which would permit those persons into your plan who are now not permitted because of the existing state of the law.

Mr. Ferguson: I do not know. I have not given much thought to that. The only out we could find was to set up a group RSP which would have its own board of trustees and its own plan text.

Mr. Chairman: Under present legislation.

Mr. Ferguson: Under present laws. That is right. I will give some thought to that in the future. It could be a useful sort of thing to do.

Mr. Chairman: Why I raise it that this committee is dealing with pension reform--

Mr. Ferguson: That is right.

Mr. Chairman: --and that is the duty, to recommend changes in legislation which would improve pension pickups.

Mr. Ferguson: One of the problems one might run into there is with the income tax people who are so concerned about significant shareholders; and already we have run into some problems. For instance, my very small company has four employees enrolled in the plan at the present time. One of them is my wife, who has 49 per cent of the shares of my little company. So she rolled over her RRSP from a trust company into this fund, and now I have had a letter from the tax authorities saying that it is obvious this plan in relation to my little company is primarily for significant shareholders and therefore a lot of other rules will apply. I am going to have to fight that out with them, because it does not make too much sense.

In trying to make sure that people do not take advantage of loopholes and that certain people do not take advantage of the law, the tax people lay traps that catch many people who should not be caught.

Mr. Chairman: Mr. Haggerty, I was sorry to interject there.

Mr. Haggerty: No, I think you maybe followed up on my next leading question. I was just thinking here, and throwing some remarks over to my colleague Andy there, and I was looking at the farming sector, the agricultural sector. Someplace along the line we seem to forget that particular group of self-employed persons. The question is, how do you get involved in a retirement program? Perhaps many of them are not looking at it. I think their retirement pension, to look in the long run, is when they dispose of the real estate that is there, but with the price of farms today, they will never be able to get the price that they are looking for.

I was trying to get Jack into the dialogue, and say, "Well, is there some area in which you can include the farming sector?" I asked him about the marketing boards, for example, and he said, no, there are no deductions there at all that he is aware of that would include retirement planned through the marketing board agencies and so on. Looking at this particular program, I thought maybe there was an area that they could broaden out to include some of the farmers.

Mr. Brandt: We are all in favour of helping Jack.

Mr. Haggerty: Yes, well, that is what I say.

Mr. Ferguson: There are two possibilities here. Under our present plan, which is a private one--we are going to try to get this going in Ottawa, and then we are going out to Smiths Falls and Perth and the surrounding areas where they do have small chambers of commerce.

Mr. Haggerty: Many lawyers have farms, you know.

Mr. Ferguson: Yes, that is right. That is one possibility, that by bringing in the smaller chambers in the smaller towns, they could have farmer participation, if not in the employer-employee related one, at least in the group RRSP plan, unless the law has changed.

The other thought is this, that this same concept, what we have developed for a local chamber or board, could be developed for other organizations so that it would be sponsored by a private organization and would be a private plan. It would not be something that is offered to the general public; it would be created specifically for a certain kind of people.

The reason for that is if we were to create something that we are selling to the general public, we would have to clear it with the securities commission in every province, and they are still way back in the dark ages; they still insist that all assets be valued on a liquidation basis, you see.

One criticism I have of the institutions that are operating these pool funds on this liquidation basis is that we are accepting these rulings without fighting them. Another area of where the private sector is not acting in its own interests. It is too easy to accept present legislation without trying to have it changed.

It is a good thought. I have often felt that if this is really successful with chambers and boards of trade, there is no reason why it could not be used by other associations or farmers' groups.

Mr. Riddell: What opportunity is there for employee input into some of the decisions that are made in connection with the plan? It seems to me that under--what was the third feature there--it seemed to me that the employer was making the decisions as to eligibility, contribution rate and all the rest of it, and then you have a board of trustees established to manage the plan. Would there be any possibility that an employee might be one of the members on that board of trustees?

11 a.m.

Mr. Ferguson: I mentioned earlier that we have our board of trustees set up now with six members and our plan is to have two of those members employees of participating employers.

Mr. Riddell: I missed that.

Mr. Ferguson: The other thing is when an employer in a small company is deciding on those options, he is probably going to discuss these options with his own employees--we did in our

case--whether they prefer to make it compulsory or whether it is to be optional. You can't make it compulsory for people already employed by you but you can make it compulsory for new members coming into your employ. We discussed this with our employers and I would think most small companies that have a close relationship with their employees would discuss the selecting of those options.

Mr. Brandt: Mr. Chairman, a couple of my questions have been answered, but I have just a brief comment. I would like to congratulate you on embarking on this venture because it does cover a group we have some rather serious concerns about, people who are not able to get into other pension plans, and that kind of thing.

I think you attempted to answer this question earlier, but have you any idea at the moment what the minimum size might be with respect to making this kind of plan viable? I am thinking about the small boards of trade or chambers that are in relatively limited population communities. Those kinds of areas I think would have some real difficulty in making this kind of plan work. Do you have a minimum number that you think would work?

Mr. Ferguson: You are quite right and here is the answer to that. It is an answer that I didn't envisage in the first place. It took us two years to set up the plan text and put all the other documentation together. We are prepared to give it holus bolus to other chambers and boards across the country to let them set up their own plans.

In talking to them we found that it rather horrified them to think of all the administration work they would get involved in. And in talking to Wells Bentley and the income tax people, they could see no reason at all why, if we set up this plan and it is operating well, we could not make it available to other chambers and boards right across the country, not just in Ontario but also we have had a letter from the Winnipeg chamber showing quite a bit of interest in this.

We found that with a couple of minor changes in the bylaws of our board of trade and a couple of changes in definitions in our text and a letter of agreement between another chamber and our own board, we could set it up in such a way that when these chambers and boards go out to get members for their own chamber or board and make it known there is this pension fund available to them, then the application for enrolment in the plan could come directly to us.

In Ottawa, we were fortunate to have a chap, whose name is Earl Haynes, who is head of the pension section of Labour Canada. He knows all about pension plans from having put all the statistics together but he also worked for quite a few years with The Wyatt Company and got involved with administration, and he was also very much involved in the government annuity plan years ago when it was the major pension plan for many companies, even big companies. Therefore, he is working for us for peanuts. We are paying his out of pocket expenses and he is setting up an administration for us that could be used by other chambers and boards across the country. And why not?

The other thing is that we are not a profit-making organization. We don't have a lot of vice presidents and we don't

pay taxes so therefore our costs should be fairly low. I think my own little firm at some point might have to charge more than a dollar a year to cover our own cost but we are still probably charging much less than any other investment counsel.

With the Corfax people who are handling the administration work, the more people we have enrolled the lower the cost per unit. So we can see ourselves being in a position to offer the lowest cost, the most viable and useful pension plan for small companies in this country. This doesn't mean we are going to sell it. It is one thing to produce a health food but if people like junk food, you are just out of luck; but we are hoping to set up the marketing program. I am hoping that John Bulloch and his organization will be willing to sponsor it. We have a meeting lined up with Monique Bégin and her department heads at some point in the future.

Interjection.

Mr. Ferguson: We don't know what will come out of that.

Mr. Brandt: Would you take our chairman along as your guest at that meeting? Perhaps that would be a way of him having at least some dialogue with Madam Bégin.

Mr. Chairman: I think Mr. McClellan's observation is correct, I would have to travel incognito. There's a bit of an, I suppose you'd call it an in thing--I don't think it's a joke--and that is that--

Mr. Brandt: It's certainly not very funny.

Mr. Chairman: --we would have to meet with Madame Monique Bégin, but without success, notwithstanding some persistent effort.

Mr. Ferguson: Well, then I'm being a little optimistic. I had Lloyd Francis in our office a couple of months ago. He is Deputy Speaker of the House. He got very much interested in this plan, and he wrote to Monique Bégin and also to Lapointe, who is small business minister, and he got letters back saying they would be glad to meet with us at an opportune time. The same thing has happened. I'm waiting. Maybe we'll never meet; I don't know. But we're going to keep pressing.

Mr. Brandt: Maybe our chairman could go as an observer and as a key adviser or something of that nature.

Mr. Chairman: Hope springs eternal.

Mr. Brandt: You've answered one of my questions, but I would like to perhaps expand on it a little more, the concept of having some of the smaller chambers. I'm thinking of areas like yours, Jack, where you have got a relatively limited population dispersed over a relatively wide area and where any one unit would not be large enough to make this kind of thing work. You've answered that question by indicating that if this thing works as you have expect it will then they could add on to your plan. In other words, they could apply directly, as you have indicated, and I think that's a good feature.

I am concerned about one point you raised earlier, because it leaves another group of people whom we are concerned about uncovered, and that is the single owner-operator, who in many instances is operating at usually an income level that is fairly marginal. It's usually a family operation with perhaps only one employee, and that person does everything from washing the dishes to delivering the food in a restaurant or whatever. You indicated that that person was not able to enrol in your particular plan.

Mr. Ferguson: Yes, that's right.

Mr. Brandt: Could you expand on the reasons for that? And are you attempting to address that in any way to get around that? That's a group I have a concern about. They are not usually very wealthy; they have a marginal income from the business enterprise they are involved with, and they do need some form of pension protection. I wonder if you could address that question.

Mr. Ferguson: Yes. This first came to our attention when we were setting up this plan, and the lawyer on our task force found that he and his partners were not qualified to participate in this plan. When we looked into it and talked to Wells Bentley and the tax authorities we found that we could set up through the Ottawa-Carleton Board of Trade a sister plan, which is called a group RRSP, a group registered retirement plan. This will be designed particularly for single proprietors and for the partners of legal and accounting firms, and it could be for the chap who runs a service station, if he's a single proprietor, or anyone else. Therefore, there would only be one kind of contribution in there: his own contribution, no employer's contribution.

So we felt that, by setting up these two plans, operating them together and putting the money into the same pool, I believe very strongly that the more assets you can build up in a single pool the more efficiently you can manage them to get the greatest possible return.

And also we believe very strongly in not changing the asset mix. This is a pseudo-scientific thing that's being done. Most pension funds get out of stocks when they are very cheap and then buy them when they are very dear. If all pension funds had a fixed asset mix in the last 15 years--50 per cent in fixed-income securities, 50 per cent in common stocks--you wouldn't have found them going into common stocks up to 70 per cent of their total assets when they're selling at 20 times earnings and then getting out and not buying any when they're selling at six times earnings.

So we believe it's quite possible that we can set up a plan which will cover all of the possible members of a board of trade or chamber of commerce. Now, if they're beyond the reach of a chamber of commerce or a board of trade then maybe we don't have the complete answer.

Mr. Brandt: Would you consider, as an example, using the argument that you suggested earlier, that the more volume you have in terms of participants in the plan to lower the unit cost--I think that was your phrase--

Mr. Ferguson: Yes, that's right.

Mr. Brandt: Mr. Haggerty raised the point about the agricultural community as an example, where you may have a farmer, who is obviously self-employed. He may be the only employee, but he would have no reason to join the board of trade or a chamber of commerce or whatever. Would there be any method you could think of that might make your plan available to that kind of individual even though he wouldn't become a member of the organization?

11:10 a.m.

Mr. Ferguson: There might be advantages if he did join the local chamber if they're also providing group life insurance, disability--that sort of thing--and the pension plan on top of it. Maybe I shouldn't say it, but I'm not too keenly in favour of big bodies like Canadian chambers or Ontario chambers. I think the real strength of the business community in this country is in the local chamber and the local board, and there's no reason why they couldn't be stronger than they are by providing better service and expanding to provide these services to a greater number of people. I'm getting very enthusiastic about working with the board myself, because I'm very much impressed with what the local boards and chambers can do.

Mr. Brandt: You don't envisage, then, any opportunity for a nonmember to enrol.

Mr. Ferguson: No. They have access to the various things offered by insurance companies and trust companies, and I don't think they're as good as they might be. We're going to meet with opposition. As you know, the insurance industry is bringing out a plan this year that's going to be handled by about 41 different insurance companies. They would likely be pooling all of their assets. They will be deciding for themselves whether a company with two employees can join. We think our plan is far better than that, but there are individuals in Canada who will have access to these other plans.

Manitoba is also setting up a voluntary plan for small businesses. It's questionable how well it's going to work. I understand they are having some problems right now, and whether it will be promoted or not is a good question. Again, it will probably be farmed out to so-called experts who are not, in the last analysis, as expert as they might be. The reason why most experts are not so good is that they are too expert. They make a great pseudo-science out of a field that is so simple that it's almost laughable to think about it.

Mr. Chairman: Isn't that true.

Mr. Brandt: Thank you, Mr. Chairman. That covers our questions.

Mr. Chairman: Further questions?

If there aren't any further questions I want to thank you very much, Mr. Ferguson, for coming before us today. It has been a

very interesting and important area that you have touched upon, which is going to be the subject matter, certainly, of this committee's attention. We are addressing, as you know, that area where coverage doesn't seem to be so apparent. Again, thank you very much.

Mr. Ferguson: Thank you, sir.

Mr. Chairman: Any further business, gentlemen? If not, then the committee stands adjourned until 10 o'clock next Monday morning.

The committee adjourned at 11:13 a.m.

PR-19

SELECT COMMITTEE ON PENSIONS

CANADIAN CO-ORDINATING COMMITTEE ON MULTI-EMPLOYER PENSION PLANS
RETAIL COUNCIL OF CANADA

MONDAY, JANUARY 25, 1982

Morning sitting

SELECT COMMITTEE ON PENSIONS

CHAIRMAN: Taylor, J. A. (Prince Edward-Lennox PC)
Brandt, A. S. (Sarnia PC)
Cousens, D. (York Centre PC)
Cureatz, S. L.; Deputy Speaker (Durham East PC)
Gillies, P. A. (Brantford PC)
Haggerty, R. (Erie L)
Jones, T. (Mississauga North PC)
Mackenzie, R. W. (Hamilton East NDP)
McClellan, R. A. (Bellwoods NDP)
Riddell, J. K. (Huron-Middlesex L)
Van Horne, R. G. (London North L)

Clerk: Arnott, D.

Researcher: O'Mara, Dr. J., Legislative Research Service

Consultant: Bentley, W., Superintendent of Pensions, Pension Commission of Ontario

Witnesses:
From the Canadian Co-ordinating Committee on Multi-Employer Pension Plans:
McCambly, J., Chairman
Rivers, W., of Martin E. Segal Co. Limited; Consultant to the Canadian Co-ordinating Committee

From the Retail Council of Canada:
McColl, W., Manager, Pensions and Insurance, Hudson's Bay Company Ltd
McKichan, A., President,
McNeill, A., Chairman, Employee Relations Committee; Personnel Manager, Simpsons Ltd.
Rigney, R., Benefits Manager, Simpsons-Sears Ltd.

LEGISLATURE OF ONTARIO

SELECT COMMITTEE ON PENSIONS

The committee met at 10:38 a.m. in committee room No. 151.

CANADIAN CO-ORDINATING COMMITTEE ON MULTI-EMPLOYER PENSION PLANS

Mr. Chairman: I will call the committee to order.

First of all, I shouldn't say I guess I want to apologise. I do want to apologize for the delay in starting. Apparently some of the members from out of town are having difficulty getting in. Therefore, that is the reason for not starting off as promptly as we usually do.

We have with us this morning the Canadian Co-ordinating Committee on Multi-Employer Pension Plans. Those persons appearing before us are Mr. James McCambly, chairman, and to Mr. McCambly's right, Mr. William Rivers from Martin E. Segal Company Limited, consultant to the Canadian co-ordinating committee.

Gentlemen, we are in your hands. We now have your brief, which is entered as exhibit 181. As I say, we are in your hands as to how you wish to deal with your brief.

Mr. McCambly: Thank you, Mr. Chairman. We appreciate the opportunity to appear before you and, due to the bit of delay, we will try to be as brief as possible in terms of going over the brief so that your committee might be able to exchange with us some views and discussion on the issues that we would like to raise.

The Canadian Co-ordinating Committee on Multi-Employer Pension Plans has only been established as of recently and has come out of the very significant interest in pension legislation reform in various provincial jurisidictions and nationally. I might say that Cliff Evans, the secretary for our committee, intended and wanted to be here today but was unable to. Bill Rivers of the Martin Segal company, who came to do some work for us, will be doing a lot of the talking. As you might note, my voice is not too good today either.

I would like to just identify that the brief that has been prepared is trying to illustrate the unique characteristics and advantages of the multi-employer pension plans. We feel the multi-employer plans are practical, economical and an efficient method of providing retirement benefits. We have demonstrated over the years that our plans are able to provide a pension to employees who would never otherwise be eligible due to their particular employment situations.

We formed this committee initially with 13 unions and met on December 10, 1981, in Ottawa to form the Canadian co-ordinating committee. We have listed here the unions that are involved at this particular time. I will not read them but the 13 names are there. I might just read briefly the purpose that we have used to describe our plan, and that is to preserve the economic and social viability

of multi-employer pension plans by promoting and protecting the multi-employer concept through an organized program of initiating, co-ordinating and monitoring the legislative process for reform in Canada for all participants of multi-employer plans.

We have a list of objectives that you may wish to go through which I think are self-descriptive. The committee of founding members consists of some of the largest union organizations of their kind in Canada. We feel they represent approximately 500,000 employees, and most of these employees are covered by multi-employer-type pension plans.

We have contacted a good number of other unions, and some of them already committed to participating represent some other segments of our economy. We are in the process of bringing in employer representatives as part of this committee as well, which is reflective of our jointly trusteed capability throughout the industries. Conservatively, we would estimate that there are probably another 250,000 employees throughout Canada who are employed in industries mostly serviced by multi-employer plans. These are the people we are also inviting to participate with us.

As is clearly implied by the title, more than one employer is involved in multi-employer plans. There are literally tens of thousands of participating employees who contribute to these plans throughout Canada. We believe there are probably in excess of 200 multi-employer plans in Canada with assets of well over $1 billion. I might say that in the very near future we intend to develop more precise statistics as to the coverage of our plans and the depth of that coverage.

It is the opinion of the committee that the existing pension legislation was designed to serve the needs and peculiarities of single-employer pension plans. These laws are not suitable for the fair and equitable administration of multi-employer plans. We have prepared with this submission a number of recommendations, but in view of the fact that our committee was just founded, we hesitated to submit those recommendations without going back to our committee and making sure they were acceptable. We are certainly prepared to do that in the very near future and file specifics of recommendations with you.

Mr. Chairman: Mr. McCambly, if I might interrupt, those recommendations would deal with the reform in the legislation that would be necessary to accommodate your objectives?

Mr. McCambly: I think the recommendations specifically would deal with the points that we raise in this submission. As far as the specifics of legislation go, what we would propose is that we would offer the services of our committee to work with a continuing committee or assist efforts that may be undertaken by your select committee or the Legislature in developing legislation. We would be prepared to get into any sorts of details that you may wish us to get into with you regarding multi-employer plans.

Mr. Chairman: I did not want to interrupt your train of thought. It was an offer you made in passing to file recommendations subsequently with us. It would be appreciated if I

could confirm that as quickly as possible because we are anxious to see that there is some action resulting from our deliberations. Also, it strikes me, as it obviously does you, that the present legislation was not designed to accommodate your type of pension. Any suggestion you have there would be appreciated as well.

Mr. Mackenzie: Mr. Chairman, if I could just add to that, if there are glaring examples of how the current legislation is not equitable in terms of multi-employer plans, it might be useful to put that in perspective as well.

Mr. McCambly: In about two minutes, if I can, I would ask Mr. Rivers to go through some of those points with you. Probably the answers are self-evident, but we are certainly prepared to go into more detail on answers or recommendations specific to them.

At the outset, before asking Mr. Rivers to continue, I might just say that any kind of legislative reform could have a very substantial effect on the multi-employer plans because of the fact that they are based on specific contributions and the plan has to design itself around those contributions and develop benefits based on the contributions for a specific period of time.

Mr. Chairman: This type of plan.

Mr. McCambly: That is right, and for fixed periods of time. We will get into that maybe in the windup and we can exchange some views on that. I will ask Mr. Rivers to go through briefly the second and third portions of our submission to give you an outline.

Mr. Rivers: Thank you, Mr. Chairman. My presentation begins on page 7 of our report. I think one of the objectives that this committee has is to create an awareness of this unique type of pension plan. We have coined the phrase "multi-employer." That is pretty well used throughout the industry. The one thing that it is not, it is not a multiple employer plan necessarily in the sense that the key to it is more than one employer, not just one employer with branch locations across the country.

These types of plans have been in operation for some 15 to 20 years, but they certainly are in many ways in their infancy. Many of them are just starting to show signs of maturing in terms of the funding of their liabilities, in terms of the relationship of pensioners to actives and so on, but they are also clearly in a very strong growth stage.

Mr. Williams: Mr. Rivers, if I could just interrupt for a second for clarification, it does also include, does it not, the national companies that do have different operations throughout the country? You mentioned that there could be entirely different companies involved in the multi-employer situation but also the conglomerate, such as Inco as an example, which would have different facilities all around the country as well. So it is probably a one-company, multi-employer situation in that sense.

Mr. Rivers: I would make a distinction for you in that Inco could certainly be an employer that could participate in a multi-employer plan, but for definition purposes we would not define Inco's pension plan for its hourly workers at the various locations as a multi-employer plan in this context.

Specifically, what we mean is a worker, a member of a union, who is employed by an employer to do a specific job, and then in the next week, or two months later, he may work for another employer, completely separate and distinct but within the same industry, with the particular trade that he has. That is the clear distinction that I was trying to make.

10:50 a.m.

What are the characteristics of multi-employer plans? They are one to which two or more, usually unrelated, employers contribute--I think "unrelated" is a key word there. The service for the participating employee is aggregated at the end of his working career to determine the retirement benefits from all these different employment situations. These plans are established through a collective bargaining agreement, so there is always labour and management participation.

Typically, the collective bargaining agreement will set forth the contributions. Frequently, they will be in cents per hour or they may be, depending on the industry, so many dollars per week, or on the basis of so many tons of coal mined or whatever the particular industry might be. These contributions, once defined in the collective agreement, are then used most frequently to define a benefit which will be provided, based on years of service or participation in the plan.

Chairman Taylor made a remark that they were like money-purchase plans. I think that it a matter of debate, one that I have spoken to Mr. Bentley about. Clearly, their contributions are defined, but immediately in most situations, once the contributions are defined, you then define a benefit based on those contributions. Perhaps they are a combination of a money-purchase defined contribution concept and a defined benefit concept.

Because both labour and management participate in a negotiating process it is most common in Canada that the boards of trustees established to set up the trust fund to administer this pension program are represented equally and jointly by labour and management to serve on the board, and they represent, of course, the parties to that collective bargaining agreement. The trustees then function under the terms of an agreement and declaration of trust with certain duties and responsibilities of trustees. These trust funds will have a chartered accountant who audits the funds annually. Also, there is an administrator involved, a centralized administration, to maintain all of the employee and employer records.

One of the distinctions of a multi-employer plan, as distinct from a single employer, is that all of these employers do not keep their records. They simply transfer the contributions or make the contributions to the trust fund in one central source; it is the board of trustees that retains the services of an administration firm, a chartered accountant or whatever, to review the trust fund itself.

Mr. McCambly has referred to the founding organizations for the Canadian co-ordinating committee. Some 13 unions initially participated. The scope and magnitude, though, of multi-employer plans is not just confined to the industries that those 13 unions are involved in. We have provided on page nine of our brief a summary of the employment categories. I think you will agree that it is a very broad list of industries in which, typically, the multi-employer concept is the most beneficial for the employees. The range covers entertainment, the pulp and paper industry, manufacturing, the needle trades, transportation, printing and so on.

The Canadian co-ordinating committee mentioned in the purpose of this committee is to make people like yourselves, the real architects of future pension legislation, aware of these types of plans under special needs and idiosyncrasies. Beginning on page 10, we have tried to give you, or identify, some of the characteristics, some of which have already been mentioned, which create special problems and special needs for these programs. We have mentioned that they originate with the collective bargaining agreement and with negotiated contributions upon which benefits are determined.

In a typical negotiation with a single employer--and this might be the case with Inco, to mention your example--where there is the negotiated process and there is a collective agreement, the employer in that situation would be the plan sponsor and would take care of the financial aspects of that negotiated pension program.

In a multi-employer plan, however, through the trust fund concept, the contributions being defined, all the financing comes from within that trust fund. If there does happen to be actuarial gains or whatever, those moneys remain in the trust fund to be used for the benefit of the participants of that trust fund. We think that is an important characteristic of multi-employer plans. Most of these programs are noncontributory. There are only a few that require employee contributions; so all the funding is done through the negotiated employer contribution.

We have mentioned that most our defined benefit plans provide a flat benefit or defined benefit on a per year of service basis or some other measurable time period, depending on the industry. The majority are administered by both labour and management. One of the real fundamental characteristics of the multi-employer plan that really creates the necessity for them is the high degree of both employee and employer mobility.

In many of the industries represented or suited to the multi-employer design, the employee will work for several employers during the course of the year and that employer himself may actually work in different jurisdictions. If we can cite the construction industry, as an illustration, an employer employing carpenters, bricklayers, engineers and so on may have a project in Kitchener for three months and his next project could very well be in Calgary. So his operations would move accordingly, as would the workers.

The trust funds themselves that are set up through the collective agreement are usually open-ended in concept, meaning that if the collective agreement is expanded or there are other employers who become signatory to that collective agreement, they can automatically through the bargaining agreement begin participation in the trust fund so that the joining of a new employer, while creating possibly new liabilities and so on, is really a simple process and can be expanded very easily.

The scope of some of these plans--recognizing that you are a provincial committee--are provincial in nature, but there are some locals in certain cities where there is just one plan operating. There are regional plans covering two or three provinces. There are national programs, multi-employer pension plans, that have the same kind of benefits and the same contribution rates for all the workers in every province in Canada. There are also some that are international in concept, because some of the industries represented will work in both the United States and Canada and they may very well have a similar pension plan, the only differences being the differences required by the respective legislation.

Multi-employer plans allow many small employers to participate and provide a pension plan for their employees. Many of them are so small they probably would not be able economically, without something like PURS or that kind of program, to set up a pension plan but, because of their size and their design, many small employers can participate. The employee's eligibility and benefits are protected or maintained while working for any number of different participating employers, so there is a degree of portability or transfer ability of credit that is important to their design.

Unique to a multi-employer plan are reciprocal agreements. Again, as a little bit of industry shop talk, a reciprocal agreement is an instrument of portability or transfer ability of credits or contributions between two or more multi-employer pension plans so that, because of the mobility of the employee, if he goes to work in different jurisdictions or they have different pension plans, his credits can be preserved while working in, let's say, the two trust funds that are participating in this special document.

Operational stability of a multi-employer plan is important. With economic conditions such as we are facing today, many employers are looking at bankruptcy, and difficulties with the pension plans are caused when such happens. However the termination of one particular employer in a multi-employer plan does not spell the end of those benefits for the employees of that employer. The multi-employer plan continues.

<u>11 a.m.</u>

Multi-employer plans have difficulty in compliance with new disclosure legislation. Not that they do not want to comply, but the reality is that with so many employees and employers over such a large geographical area much of the data is not easily attainable. This is a special problem for multi-employer plans that we think is unique and should be recognized.

Continuous service with one employer is very unusual. Service within one industry, however, is quite common. This is one important characteristic, and one we have had a great deal of difficulty with in compliance and interpretation with the existing pension legislation. These employees just do not work for one employer throughout their lifetimes as many of us do.

Termination of employment is not easily defined, especially by a board of trustees, as an employee can work for a dozen employers in a single year without actually terminating from the work jurisdiction of those various employers. Employer bankruptcies, which often leave an employee without contributions to the plan, even though the hours were worked, are a major problem. Regular monthly contribution on delinquency by the employer is also a problem that is faced and is unique and which we think requires legislative attention.

The size and complexity of these programs requires a sophisticated administrative system, and controls on the employers making the necessary contributions to the plan are very difficult. Special recognition should be given there.

In summary, almost all of these characteristics of multi-employer plans could relate in some way to the existing legislation that is in force in many of the provinces. We have talked about characteristics that affect termination, that affect vesting, that affect funding, disclosure, delinquency, administration and transferability. We think any new legislation emanating from the efforts of this committee should recognize these unique characteristics.

The Canadian Co-ordinating Committee on Multi-Employer Pension Plans thinks that there are real benefits in multi-employer plans. They are working and they are providing much needed benefits to individuals who otherwise, in the normal course of employment, would not have such benefits. It is the committee's desire and objective to make sure that these plans are maintained within the legislative process, and we encourage special legislation to meet those objectives and needs.

The first section of the brief has to do with the committee's suggestions on legislative requirements. Mr. Chairman, this will refer to your question of Mr. McCambly of a moment ago. What we are trying to suggest is that because of, not necessarily the haste, but the ability to meet with the Canadian co-ordinating committee since its founding, to actually try to get some consensus on legislative change has not been practical.

These ideas are just a brief synopsis of some of the more important ones where we do not think there is any sort of dissension amongst the ranks. It will give you some of the ideas that we think are important in any new legislation. The committee would be happy to follow up on that in more detail.

Starting at page 16 of the brief, defining multi-employer plans is important. Recommendation 90 in the royal commission report certainly supported this idea. As a starting point, defining just exactly what kind of plans we are talking about is pretty fundamental.

Recognizing the board of trustees as an employer, we think would be very beneficial and bring about some ease in administration and interpretation. It is very difficult to try to apply the existing legislation to each of the employers that participate in a multi-employer plan because really it is the board of trustees that is responsible for the administration of these programs. We think the onus for compliance should be on the board rather than each of the employers.

On the vesting issue, the royal commission and the first report of the select committee support a more liberal vesting provision of five years with no age requirement. Many multi-employer plans have already recognized the need for earlier vesting from what is now mandated. The committee generally supports the principle of earlier vesting and, in particular, the five years of service, no age concept.

Termination of employment and vesting servic: In single employer plans it is very easy to determine whether a participant has terminated since he is either still employed or not employed with a particular employer, which is not the case in most employer plans. We have talked about the employee mobility that complicates this particular area of employment. On the two phrases in the existing legislation, continuous service and plan membership, their application to a multi-employer plan for entitlement to vested rights is really quite vague and ambiguous. One idea we would suggest for amending legislation would be to not define termination of employment with one participating employer, but rather participation with employers within the industry be the criterion. Just because he stops working at one location does not mean that all prior credit should be forfeited.

Another suggestion we might submit for vesting purposes is to define service in some way for vesting so that, for example, a minimum number of hours worked per year within the industry or with all of the employers under one particular plan would make it easier and provide some more equitable basis of defining vesting and service towards vesting.

Suspension of pensioner benefits: Unlike single-employer plans, where usually termination or retirement is a very clear-cut thing, in multi-employer plans, by the very nature of how the employees of these plans get their employment, they can withdraw from the plan and take retirement, but yet return to the work force while still drawing their pension. The legislation does not recognize some of the things that some plans have introduced to try to control this.

Liability and deficiency funding: To go back to the negotiated nature of the contributions, which in many instances, as we have mentioned, do define the benefits that those contributions will support, there are problems and difficulties here. If experience deficiencies arise in the middle of the collective agreement there is really no place to go get the additional money necessary to fund these deficiencies. One possible solution to help get around this difficulty in some way is to permit these deficiencies to begin to be funded at the expiration of that

particular collective bargaining agreement. This would give the parties the opportunity to renegotiate the contributions and try to meet the new funding that has been created by the deficiencies.

Delinquent employers are another area where the committee would like to suggest new legislation deal with. Delinquent employers are those employers who do not make the required contributions to the trust funds in accordance with the collective bargaining agreement--excuse me, we are on page 20 at the moment. The employers not making these contributions, for whatever the reasons may be, do present problems for the board of trustees in meeting the solvency requirements of the trust fund. The board of trustees does have the responsibility for that solvency, and the collection and the dealing effectively and promptly with delinquent employers are a very serious problem.

This committee would support the concept that the board of trustees have the ability through law to deal with delinquencies and that any legislation should provide a concise, effective and--I would underscore--prompt ability to collect these outstanding moneys.

The final suggestion of the committee at this time would be for uniform legislation. Whatever this select committee in Ontario can do to foster the idea of getting us back to where the industry was perhaps 10 years ago with uniform legislation would be certainly welcome by this committee.

11:10 a.m.

The very nature of multi-employer plans, with employee mobility throughout the provinces, is a great problem to the board of trustees in designing programs to meet all of the various differences that exist now in the provincial legislation. So uniformity would be welcomed. I would like now to come back to Mr. McCambly for some concluding remarks.

Mr. McCambly: In conclusion, we will make it brief because I am not sure what time we have considering the time we started.

Mr. Chairman: We are going to allow some latitude, Mr. McCambly, because it was through no fault of yours that we were late getting started.

Mr. McCambly: Fine, thank you. I think the points that have been made fairly adequately cover the issues we would like to bring to your attention. I do not think I can emphasize strongly enough, though, that the people who have developed the multi-employer plans throughout the industries that we are talking about are very proud of what they have done.

The difficulty in establishing pension plans and multi-employer plans is that you do not start out with a Utopia. You have to work on a contribution, decide on a contribution through the collective bargaining process and then turn that over to trustees to see what they can do with it in order to provide the best benefits they can with that amount of money. Over a period of a year or two or three or five years, the benefits improve and increase.

The difficulty with legislative requirements for benefits is that puts quite an unusual or new onus on the trustees to live with whatever those changes may be because they do not really have any control over the contribution. It is the collective bargaining process that controls the contribution. Every kind of benefit costs money and the priorities are then the decision of the trustees. That is where the legislative input becomes quite a problem.

I think I can assure you without any question that all of the people who are involved in the multi-employer plans are desirous of getting the best possible pension benefits they can. Whether that be lower vesting or survival benefits or whatever other considerations one might call benefits, the problem is that they are working with a fixed contribution. I just wanted to run over that again because it was touched on earlier, and it is something that is of particular interest and a problem to the trustees who administer the plans.

Mr. Mackenzie: Could I just interrupt for a second, Mr. Chairman? Do you make an effort when you are setting up multi-employer plans to suggest levels of contributions and standardization of benefits? I realize the difficulties that you told us about. Is there an effort made for the plan itself to do this?

Mr. McCambly: I would say generally not. Generally, it is a mutual desire of employees represented by the union and the employers at the bargaining table to set aside some moneys for pension benefits. It may be that the amount of money might be determined jointly, or it might be determined within the bargaining agent, but anyway it is fixed. Then a board of trustees is established. In every case I know of that is never a large amount of money to start with.

It would be nice to have $2 per hour worked going into a pension plan. Then you could build one that would be just terrific, but you never get that because no one would ever start a pension plan that way. It is usually started with 10 or 15 or 25 cents an hour, and you get the trustees established and the thing started. In the next agreement you improve on those benefits and expand them.

As a result, we have people within the industries we are representing here today who are in the throes of starting pension programs, some who have started them--and they are at the very formative stages--and some who have very good plans. They have been in business for some time and they are very proficient and have proceeded a long way. All of them are looking for the same kind of end results and objectives, but it is a question of how to get there. The important thing that I believe this committee should realize is that multi-employer pension plans have been able and are able to provide pension benefits for thousands and thousands of people who otherwise would not be eligible to have pension benefits.

For small employers, first of all, if they had the desire to provide pension plans, it probably would be an impossible situation for them to put them together. In industries where people are moving from one employer to another, it is simply impossible, within an industry to put together a plan that would serve the interests the way the multi-employer plans do.

Mr. Chairman: Does province-wide bargaining assist you in the allocation and determination of amounts for pension contributions which might be more universal in nature?

Mr. McCambly: Within a province I am certain it does that. It sets the stage for more universal contributions. However, there are some organizations that have had province-wide plans in existence; there is that kind of variation.

Mr. Chairman: There are some unions, I gather, which negotiate a pay package without distinguishing how much of it will be allocated for pension contributions. The electrical workers were here, for example, and indicated that they negotiate a pay package and may deduct anywhere from 50 cents to $1 an hour for their pension contributions. That is really an employee contribution in that it is part of his wages. I suppose that is an absolute recognition of pension moneys being deferred wages, because it is precisely that. Are there many of those instances?

Mr. McCambly: I don't think they are very high in number, but there certainly are those cases. The point there that is important is that something that comes under the collective bargaining process, be it joint or within the scope of the jurisdiction of the union to do that, it is within the bargaining process. It is only after that point that it comes into the hands of the trustees.

Mr. Chairman: What I was trying to get at was who determines how many cents per hour will be allocated for pension moneys?

Mr. McCambly: There are two different ways of doing this. It is done by the bargaining agent or it is done jointly with the employers and the bargaining agent.

Mr. Chairman: But there are some cases where the union itself would determine that, are there not?

Mr. McCambly: There are some.

Mr. Mackenzie: That's a package--so much would pay for health insurance and so much for pension contributions.

Mr. Chairman: What I am leading to is, should there be some uniformity or consistency where the allocation is at the full determination of the union, not arrived at through collective bargaining? Should there be some minimum amount of contribution mandated?

Mr. McCambly: I guess we would prefer that there not be anything mandated in that regard because that really becomes an intervention into the bargaining process. However, I recognize that if there are to be minimum benefits, then there probably needs to be a minimum contribution.

Mr. Chairman: When there is a certain amount of money in mind to be allocated for pension purposes, surely there should be some follow-through on that, notwithstanding an employee's immediate interest, which may be not to worry about his pension.

11:20 a.m.

Mr. McCambly: Yes, but when you are starting a plan and thinking of what you would like to do and how much money that might take, you still have to get into the actuarial accounting as to the age of the people in the plan. All these factors will then affect the actual amount of benefit you may be able to acquire with that particular group of people and that particular contribution.

Mr. Chairman: I was thinking maybe of some minimum standard in terms of money contributions.

Mr. Mackenzie: Mr. Chairman, if I could just continue on with what you have asked there, when I asked if you people made any particular recommendations, that was what I was getting at. How much of an interference would it be if one of the recommendations was that a floor or a standard or a minimum was required? What kind of problems does that create and how seriously would you be opposed to setting such a standard, which might become the floor, when the various groups may or may not want something better?

Mr. Rivers: Would this be a benefit standard or a contribution standard?

Mr. Mackenzie: The two do not necessarily follow totally, but you might have to set a standard at both levels. I suppose that would allow some adjustment if necessary. If we could get some kind of uniformity is what I am thinking. There has to be some standard set if, as one of the components, multi-employer plans are going to be part of the answer to pension problems, or to the lack of adequate pension income.

Mr. McCambly: I am sure if there were a standard, it would probably be a relatively low standard to the industry, so those plans that are in existence probably would not be affected. However, when a new plan is starting, it could have quite an effect because, as you mentioned, what you are doing is taking a part of the pay package and setting it aside so it is no longer take-home pay or no longer in the hands of the employee to buy groceries et cetera. So that becomes quite a heavy decision, if we might be talking about a substantial contribution out of the normal pay package to provide for a pension scheme.

Mr. Mackenzie: Given the age make-up of the work force, contribution from one group might not buy as much or might buy more?

Mr. McCambly: That's for sure.

Mr. Williams: I have a couple of questions, if I might. You make reference to the board of trustees that would be set up to act as the overseers of the plan for that particular industry, and then you mention that, in turn, the board would hire certain specialists, such as an actuary and a chartered accountant, and would employ an administrator. In practice, is this administrator usually a private firm that specializes in handling trust funds, pension funds and so forth so that they would be the day-to-day managers of the fund reporting back to the board of trustees on what is happening?

Mr. Rivers: That is one of the practices used in the industry. The other alternative is for the board of trustees itself to hire an individual or individuals and set up its own administrative record-keeping facility.

Mr. Mackenzie: To work in-house?

Mr. Rivers: That is correct. Just like an employer would keep his records. It can either farm out those services to an organization that provides them or retain its own.

Mr. Mackenzie: To date, which has been the more common practice of those two options?

Mr. Rivers: I hate to answer it with "it depends," but certainly geography has dictated. In Ontario, the former option, farming out, is the more prevalent practice. In parts of the west, you will see evidence of more in-house administrators where the trustees themselves are doing it. But both exist in all areas. If you are looking at pure numbers, there are probably greater numbers of the former in Ontario.

Mr. McCambly: In either case, the responsibility of the administrator is the same as that of the trustees, whether it be in-house or hired out.

Mr. Williams: It is just a question of mechanics really.

As you point out in your brief, while the royal commission does deal with multi-employer plans, it does so in a rather succinct fashion, and I guess we really only have three recommendations that deal specifically with that subject. It seems to me that recommendations 90 and 91 certainly deal specifically with some of the points you have raised. I think in those recommendations they provide specific ways of dealing with those problems which are consistent with what you yourselves are recommending.

With regard to recommendation 92, while they again identify a third problem, I don't think in that case they are offering the specific answers to the problem that they see, and that is probably where a great bulk of your concerns rest in that particular area. It deals with the service-based benefits and some of the problems you have identified in your brief.

For instance, as mentioned by the chairman, we had one of your committee members in just the other day, I guess Thursday or Friday last, from the International Brotherhood of Electrical Workers, who highlighted the nature and unique situation dealing with multi-employers. Some of the difficulties are that there appeared to be certain legislative impediments that exist that really prejudice the employees working with a multi-employer. By the very nature of these multi-employer plans, I can understand why a large percentage are of a noncontributory nature, but apparently in that given that situation, as I recall--Mr. Bentley, you can set me straight if I am incorrect-- by reason of their being noncontributory, they were not able to be registered as pension plans. Was that correct?

Mr. Bentley: They hadn't set up a pension plan. All they had negotiated was a certain rate of return which, as you know, flows down to Denver or something of this kind under that particular plan. Their major concern was that they could not enter into reciprocal agreements with other multi-employer plans because they had no plan to accept the transfer of contributions from a multi-employer plan to their local because they have no vehicle which would permit the transfer in of these.

Mr. Williams: So it wasn't the noncontributory feature, it was the international feature of these plans that prevented the registration.

Mr. Bentley: And the national situation.

Mr. Williams: I see.

Mr. Bentley: These gentlemen have plans which provide benefits. If you are going to allow the money-follow-the-man principle, the only kind of an agreement you could enter into is with another multi-employer plan which carries on the same principle, that is, that there shall be a pension at the time the person is eligible to retire or to receive it. For a local which does not negotiate a pension plan, there is no vehicle for the transfer in of or the receipt of any contributions from any other multi-employer plan.

Mr. Mackenzie: Probably partly of their own making.

Mr. Bentley: That is right. This was the argument they were presenting. Why couldn't that money earned in Sarnia, where it would be under a multi-employer situation, be transferred back to the local here, which of course makes it impossible. You could not enter into an agreement where there is not another pension plan for you to enter into. That would exist whether there was a law or not.

Mr. Williams: I certainly think the committee is grateful to your committee for coming before us to highlight the unique problems within the multi-employer plans, because up until last week with the IBEW and yourselves I don't think we really had recognized just the complexities and unique difficulties that exist in your given type of situations. I notice you have also approached some of the employers involved to try to get them to sit down to work with you on a co-ordinated basis and as representatives of the different employers in those industries across the country. How far have you progressed in those discussions?

11:30 a.m.

Mr. McCambly: We have approached some employers and some have accepted. We are just in the process of contacting others. The employers who have been working with us in various regions over the years are quite receptive to participating. They are clearly as concerned as the unions about the lack of information--the lack of awareness--of the concept and the operation of multi-employer plans that you mentioned in the report on multi-employer plans.

Quite frankly, we appreciate that, but we believe, and it would appear, that in the various jurisdictions across Canada there has been very little recognititon of multi-employer plans. I suppose that points out that maybe we collectively have not been doing our job; that we have been building and developing multi-employer plans to the point that they are now a very significant factor in the industry and yet the people are not aware of them; and the legislation that has been in existence for years that you are talking about reforming has not been cognizant of those peculiarities of multi-employers. That is part of our reason for existence.

Mr. Williams: Certainly I think Ontario in particular in this given case, if the pension commission direction is given, will have to tighten up the legislation as it exists under the Pension Benefits Act, or whatever, to deal with some of these specific examples you have cited, where ambiguities or uncertainties exist under present legislation that really don't appear to be dealing directly with these given problems you have cited.

I guess one example is the employer bankruptcies. How do you keep tabs on whether the employer has been keeping up the payments? Once they have gone bankrupt, what can you do to recover the hours worked by the employees? The contributions aren't there, unbeknownst probably to the board of trustees until it's too late. What remedies can be brought about to ensure that this kind of thing can be legislated against?

Again, the IBEW gave us some examples. I think it was actually one of the witnesses before us, who had worked in different provinces and had money running from two figures to four figures sitting in funds in different provinces around the country. He can't get his money out and he can't have it transferred to be put into an RRSP or whatever. It is money he has no access to. It highlighted in a very dramatic way part of the problem they are confronted with.

Mr. McCambly: If I might point out with regard to bankruptcies, they did suggest that it is a problem for our plans to collect moneys from a bankrupt situation because of the responsibilities that are there for the trustees. However, with the multi-employer plan we are in 500 per cent better shape than a single employer plan because the benefits that are accrued are there and are locked in for that employee and he is not going to lose what is there. The only problem is to get that additional contribution that may have been lost in the last month or two months, just at the time of bankruptcy.

In fact, with the numbers of bankruptcies that are happening in Ontario and Canada today, I think the multi-employer plans are able to provide a maintenance of pension that single employer plans just can't do. We do have some problems--I'm not saying we don't--in trying to collect that money. In the meantime, what has happened in the last six months, year or two years is locked into the plan and there is no chance of losing those benefits.

Mr. Riddell: I am sorry for arriving late. Some of us have to travel a long distance to get here out of the country that is still for the most part snowbound. I was held up by a rather serious accident that occurred on a road that had not been ploughed. That is the reason we were not here when you started.

I glanced through your brief. You have focused in mainly on multi-employer plans, and that is understandable as your committee is dealing with this. I see in your brief that you are a committee that represents large organizations and you have had discussions with several unions at your inaugural meetings and things like this, but I am a little surprised that when we have representatives from unions appear before this committee they feel any enrichment of any kind of pension plan should be in the Canada pension plan.

They made very little reference to multi-employer pension plans and yet you have met with unions and you seem to have the unions' blessing that this is maybe the route we should be going. Yet they come in and say, "No, the route we should be going is the Canada pension plan."

Mr. McCambly: I don't know just who "they" and "we" are.

Mr. Riddell: I am talking about representatives of the unions.

Mr. McCambly: Let me assure you the unions that participated in the founding of this multi-employer pension plan committee are making representation to you on the basis of the private pension plans that they provide. We are not making any representation with regard to CPP or the Quebec pension plan or whatever. I am not saying there should not be changes there. We are not as concerned about that as some other people might be, because I guess a good lot of our unions have done a good job. They have provided pension benefits.

That is not what we are here before you to argue or discuss. But we want to be sure that the continuation, the perpetuation and expansion of our ability, collectively with employers, to provide private pension coverage is enabled through legislation. That is what we are here for. We have not made any mention in the submission about public pension coverage. That is another matter altogether.

Mr. Riddell: I understand that but if I was asked to ask you to share your views with us--and this is the determination that we are going to have to make as a committee--do we focus in on private plans or do we recommend that we enrich the Canada pension plan, double the benefits, leave the private sector alone and go strictly the Canada pension route? Would you share your views with us on that?

Mr. McCambly: Again, the most important thing to us is that the recommendations of your committee do not impede the expansion of the multi-employer plans and their ability to provide the kind of coverage for those people who are under them that the participants feel are appropriate.

Mr. Chairman: If the benefits under the Canada pension plan were doubled, do you see that as a move that would impede the expansion of your particular type of plan?

Mr. McCambly: I believe they are compatible; if there was an expansion of public plans, whatever the rate would be should be compatible with augmenting by private plan coverage.

Mr. Chairman: Do you see that as competing with your plans in any way, competing with the enrichment of your particular type of plan?

Mr. McCambly: It is all contributions. Quite frankly, I think possibly we would be able to handle those contributions in a more efficient way than others might do but that is just an individual observation. The question of whether there needs to be greater public coverage for everyone is a social question. We are looking at the social livelihood of those members we represent and are able to cover through our unions.

I am quite certain the objectives of retirement benefits of the plans under the unions that are participating are greater than they would be under a public plan. It would be possible under a public plan.

11:40 a.m.

Mr. Riddell: I would be inclined to think they would not be compatible because they tell us that if the benefits are to remain as they are now, by the year 2003 we are looking at about a nine per cent contribution. If indeed we double the benefits, then by the same year we are looking at a contribution rate of 18 per cent. When you talk about an 18 per cent contribution rate on top of the contribution they would be making in your private plan, then there is going to be a time when the worker says whoa.

I would have to think they are not compatible. I realize your main purpose is to try to encourage the adoption of multi-employer plans, but by the same token we as a committee are going to have to come to grips with this. There is a difference of opinion on the part of this committee. There is no sense denying it. Some members feel we should be going the Canada pension route. Other members feel no, we should be trying to encourage more employers to get into their own pension plans. Here we are caught in between trying to make recommendations as to which route we should go.

Mr. Rivers: Mr. Chairman, I think your observation that within your committee there is a distinction in philosophy or approach or outlook that, without getting into all the details, the labour organizations and the management participants who are supportive of this committee clearly are looking at the alternative of the private system continuing and that their programs which have solved their problems should be strengthened by specific legislation. That is definitely the thrust of this brief, with recognition that there are other distinct labour organizations which may not share that same philosophy.

Some of those other labour organizations do not have the

employment characteristics that are prevalent with these organizations. One of the first questions asked this morning really cited that. There are employees who work for one employer in one location and work under a collective bargaining agreement and they are different. Their whole employment patterns are generally different from the people who are represented by the organizations that are supportive of this committee.

Mr. Riddell: I would personally like to see us stay with the private sector and in optional plans through the government. But here again, the question I continue to ask is how do you encourage employers to get into their own pension plans? Do you do it simply by moral suasion? Do you do it by government threat that we are going to mandate? Or do we leave it to you people to meet with the various employers and try to push your multi-employer pension plan system?

Mr. McCambly: I might say the fact that we put together a committee and called it multi-employer pension plans is not accidental because the opportunities that exist through multi-employer plans, we feel, are substantially more than can be achieved through a single employer pension plan. There are substantially more. There is just really little comparison.

I think that could account for some difference in attitude as to whether there should be another alternative, because I think there are people who are involved with single-employer plans that just do not have nearly the faith in those plans that we do in a multi-employer concept. Like I say, we are proud of the plans that we have put together.

There is no question but what with the figures that are projected--I presume they are right as far as demographic projections are concerned--that pensions, either public or private, are going to be more difficult to finance in the future than they are now, So, with an increase in public funds, that would be competing for contributions to private funds. It is not arguable. However, I do not have a position I could convey on the part of our committee as to what should happen with public programs. We have only geared ourself at this point to deal with what we have and what we would like to provide, which is multi-employer plans.

Mr. Chairman: Gentlemen, we are running behind time. As you know, we have another delegation that was scheduled for 11:15. However, Mr. Mackenzie has indicated he has a question.

Mr. Mackenzie: It is a very short one. I was wondering if you have thought through how you might provide a little more ease of information, which I gather is one of your problems, the providing of employees with the information as to exactly where they stand in the multi-employer plans.

Mr. Rivers: That question ties in with one final remark I wanted to make, if I could. We said that disclosure was a problem in complying with the legislation that has been presented, and part of it is just the administrative mechanics of a multi-employer plan; there are delays that single employers do not experience.

If an employee works in December, the administrative process of getting that money and recording those hours of work does not get into the trust fund system until the latter part of January or early in February. There is a built-in 30 or 45-day delay in the whole process. That creates problems with disclosure.

As for the part that ties in with the other remark I wanted to make, I think one of the real reasons this committee and the people it represents are, in effect, advocating the continuation of multi-employer plans through the private system, and the request for help from you with legislation that meets the needs, is that the employees themselves, through their employers and through their unions that represent them, administer and make the decisions on the pension plans so the employees feel they have a say in the process. Some of the trustees who sit from the unions are, in fact, the individuals who negotiate the contract and are the business managers of the local unions.

Mr. Mackenzie: You are, in essence, dealing with construction unions, which are a pretty different setup from the industrial unions.

Mr. Rivers: Yes, construction or others--the retail industry, the printing industry, the transportation industry or service employees. The fact that there is a trust fund set up with joint representation means the employees out there have representation in some way in the decision-making process, and they feel good about that. That has helped in the multi-employer plans to produce more disclosure to the beneficiaries of these trust funds than may be the case in many single-employer situations. The difficulties are more in compliance with timing than with making the information available. It is more of a detail, administrative thing.

Mr. Van Horne: We have had some witnesses say to us that very young employees, new employees, are reluctant to get involved with any pension scheme--the cost of it is too much, they have commitments for automobiles and mortgages and other things. Do you have any views on a waiting period, or a period of time in which they would be free from being part of a program, or do you see them becoming involved automatically at the beginning of their employment period?

Mr. McCambly: I think without exception in our plans, every employee is treated equally, regardless of age, in terms of contributions. Naturally a teenager going into an industry has a longer time to wait before receiving retirement benefits, but who knows now what you may need to provide for that person 20, 30 or 40 years down the road. It could be extremely substantial.

I would say that all of our plans treat every individual equally in terms of contributions when they go in, and the same applies in terms of vesting or plan vesting. The age is not important, it is the years of participation that are important.

11:50 a.m.

Mr. Chairman: Thank you very much, Mr. McCambly and Mr.

Rivers. We certainly enjoyed your presentation this morning. It has been very instructive and very helpful to us.

Mr. McCambly: I appreciate it, and we are at your disposal if we might be helpful in any other way.

RETAIL COUNCIL OF CANADA

Mr. Chairman: The next delegation is from the Retail Council of Canada, and Mr. McKichan is the president. Please introduce your delegation.

Mr. McKichan: Mr. Chairman, members of the committee, it is a pleasure to be before you this morning. On my immediate right is Mr. Allan McNeill, who is chairman of the employee relations committee and personnel manager of Simpsons Limited; on the extreme left is Mr. William McCall, who is manager of pensions and insurance for the Hudson's Bay Company; on my immediate left is Mr. Ross Rigney, who is national manager of policies and benefits for Simpsons-Sears Limited. My name is Alasdair McKichan and I am president of the Retail Council of Canada.

Mr. Williams: Mr. Rigney is becoming a fixture around here. This is his third appearance, is it not?

Mr. Chairman: It may be, but he has more intelligence than that, Mr. Williams.

Mr. Rigney: Living in Toronto you can be shanghaied easily!

Mr. McKichan: I would like to read a short resumé of our submission and add a couple of new points which have arisen since we filed our written submission.

The retail council is pleased to have this opportunity to appear before the committee. You have had before you for some time the comments we submitted on the first report of the committee. We do not intend to reiterate in detail the points we made then; we would simply reinforce some of our more heartfelt observations.

1. Our comments on the provincial economy and its likely fragile nature for the short-term future are, in our view, just as apt now as they were when these comments were first written. In our trade at least, we see a very difficult first half of 1982, with the hope of only a gradual recovery after that. This would be a very bad time to impose new costs on an economy lacking in confidence already.

2. We do emphasize the lead times which are necessary in relation to the reform of pensions and the very careful study of implications which is required because of the complexity of the subject.

3. The proposal in relation to vesting is, of course, desirable in principle. You will see we suggest a system of phasing in, again looking at this development from a cost point of view.

4. We touch on the system to be utilized for the calculation of interest on refunds to be made on the termination of employment of unvested employees. We commend the type of approach taken in Saskatchewan on this. This raises the point of achieving uniformity in provincial legislation. We know the difficulties such a project entails. We feel, however, if we are sincere about encouraging mobility of employees from jurisdiction to jurisdiction, this is an area where uniformity would be especially important.

5. We seek clarification on the committee's recommendations in relation to recommendation 10. We were not quite sure whether it was a scheme to be controlled by government, or simply a scheme regulated by the federal government.

6. We note the difficulties of establishing a mandatory requirement for representation on the controlling body of pension funds. Because of the difficulties, at least those apparent in our industry, we suggest encouragement rather than compulsion.

7. We express the same sentiments in relation to recommendation 16 dealing with the augmentation of benefits for retired members' plans.

8. We seek clarification in relation to the construction of recommendations 10, 11 and 16.

9. We have reservations in relation to the excess interest recommendations intended to deal with inflation protection. Our views on this are broadly analogous to those recently expressed by provincial Treasurer Frank Miller.

10. We see an overall risk that if minimum standards for private pension plans are established at too high a level, some employers, particularly those in situations of marginal profitability, may with perverse effects elect to discontinue their plans altogether. This of course is the very reverse of what we all wish to see happen. However, we suggest it is a risk. Such an eventuality would certainly stimulate governments to a much more active role in the pension field with all the negative economic effects which that portends. There is obviously a need for some fine balancing.

There are two other subjects we should touch on which are not alluded to in our first written submission: (1) the availability of pension plans for the employees of small employers in our industry, and (2) the treatment of part-time employees.

So far as plans for small retail employers are concerned, over the last several months the independent stores committee of the retail council has been investigating the possibility of council offering a uniform pension plan adapted to retail needs and accessible to all retailers in Canada. We have progressed far enough in our investigation to conclude that the operation of such a plan is indeed feasible and the recommendation is being made to our board to proceed with its formulation.

The existence of this facility should encourage more retail employers to offer pension coverage to their employees. The plan,

being of the money-purchase variety, should be easy of understanding and administration that would provide employees with a reasonable choice of investment vehicles. We expect the plan to be estabished by the first half of this year.

Second, in relation to the treatment of part-time employees, in its first report the committee raised the issue of part-time employees. This industry is a substantial employer of this category of employees and it may be useful to the committee to have the experience of some of our members on the subject.

First, we believe it is important to recognize that the work patterns of part-time employees vary substantially and it is probably wrong to attempt to classify all employees who work less than a regular work week in one category. Within the distribution industry many companies have established two broad categories of part-time employment.

The nomenclature used is different, but broadly speaking they might be classified as "regular" or "permament" part time, working a substantial number of hours per week usually in a preordained schedule, and "contingent" employees employed with varying degress of regularity but with the overriding characteristic that the employee is considered free to decline offered hours of employment at any time while the employer is not obliged to guarantee a minimum number of hours of work.

Within this last classification there are often subsets. Individual employees may maintain a work schedule with reasonable regularity but may be employed for substantially more hours during the peak retail periods, such as pre-Christmas, particular promotional events, et cetera, and such employees may also elect to be away from the job altogether for extended periods, such as during the summer when dependants, relatives or themselves are on vacation. The contingent work force will also include those with very slender attachments to a particular employer, such as students working occasional evenings and Saturdays during the academic year, and contingent employees replacing regular part-time or full-time employees who are on vacation and so on.

Some retail employers offer the option to participate in pension plans to regular or permanent part-time employees. Not many extend the same opportunity to contingent employees. Experience with the interest in coverage of regular part-time employees seems to vary substantially by company, ranging from reasonably high to rather minor. Where no interest is expressed the employee concerned is usually a member of a family unit where a spouse or another member of the family does subscribe to a pension plan.

It is believed that overall, a minority of contingent employees would be interested in making contributions to a pension plan. The reasons are apparent. Such employees are usually working to supplement household income, not to be the main provider. The interest of the employee is directed much more towards immediate reward rather than longer term security. The employee benefit that is most valued is the employee discount privilege which many retail employees offer.

12 noon

In our view, any decision to require mandatory blanket coverage of benefit plans to the part-time work force would not be welcome by many, probably not by the majority of employees. It would be a very large burden on employers, particularly in this industry. In our minds, the emphasis should be on encouraging coverage to as high a degree as possible of full-time employees.

Mr. Williams: Excuse me, could I just interrupt there? When you say "probably not by the majority of employees," are you referring to the contingent rather than the--

Mr. McKichan: We are talking about the majority of all part-time employees. If we were to distinguish between the two, I would imagine there would be a higher percentage of employees in the permanent part-time category who would be in favour of pensions, than in the contingent section.

It is true that some members of the work force are working part time only because they have not been able to find full-time jobs. In our industry at least there are not many in this category. The trade is characterized by a relatively high turnover of first-line employees, and the most fertile field for recruitment of employees is in the part-time work force. Most part-time employees who aspire to full-time work can achieve that status relatively soon. We do not know to what extent that condition applies in other industries. To the extent it does, it is a factor that should be weighed in the consideration of the merits of coverage for part-time employees.

In any event, we hope none of the recommendations of the committee will have the effect of discouraging employment, including part-time employment, particularly in the difficult years ahead. We should be pleased to assist members of the committee in relation to any questions they have, Mr. Chairman.

Mr. Chairman: Thank you, Mr. McKichan. I might just comment, I don't think the committee in its interim report was anxious to indicate, certainly at that stage, any more mandating and government regulation. I say that in response to some of the queries that are implicit in your presentation. For example, the locked-in registered retirement savings plan would be merely a vehicle, not something that was accommodating further government regulation. It is a matter of accommodating the employees, who would have more flexibility. However, I am sure members of our staff will wish to respond to the other questions you have.

I gather you are not looking for any further mandating of a pension plan, such as PURS. You have expressed some apprehension in terms of tackling that area that concerns the committee, which seems to be uncovered at the moment. You mentioned part-time employees. Do you have any further information on the nature of that particular target group that has been the cause of a great deal of concern, not only by this committee but by other committees, such as the royal commission?

Mr. McKichan: I am sorry. I missed a key word in your

question, Mr. Chairman. Did you say the danger of--

Mr. Chairman: I was asking if you had any further information in connection with that target group, now uncovered by pension plans, that was referred to in the royal commission.

Mr. McKichan: In terms of its size or its characteristics?

Mr. Chairman: Its characteristics and possibly its size. It has been hinted that it might cover 1.5 million employees.

Mr. McKichan: In the part-time work force in this industry in this province, I would estimate there are some hundreds of thousands of employees so engaged. I guess a not unusual formula in a retail establishment is that, in terms of the numbers of people, approximately half the people will be part time--not the number of hours worked, of course, but the number of people who will be part time. In this industry in this province, employing something like 600,000 to 700,000 people, perhaps a half of these might be part-time employees.

As we say in our submission, a great many of them have really no desire for a stronger attachment to the work force. They are interested in working primarily for immediate gratification, if you like, or immediate cash flow to supplement an existing household income. Typical is the spouse of a male employee who may have children at home and who conveniently can work three or four hours during the day while her children are at school and perhaps one or more evenings a week, or else the student who works a couple of evenings and Saturday. These are the most common types of situation by far, but these comments may be supplemented by some of my colleagues.

Mr. McNeill: That certainly is the pattern in the industry among all the major retailers.

Mr. Chairman: The impetus to enrichment of the Canada pension plan and/or a PURS type of plan is a desire to get at that particular target group that is not too well cared for at the moment--those who just aren't cared for through the private sector. The argument again is that the introduction of the Canada pension plan didn't cause all that much dislocation in terms of impact on the small employer and, therefore, presumably you could go a PURS route or an enriched Canada pension route without expecting any severe ramifications.

Mr. McKichan: I think you might be interested in the experience of Mr. McCall's company. They do offer to one category of their part-time employees the option of participating in a pension plan, and my understanding is acceptance of that has been rather slender in that category.

Mr. McCall: Mr. Chairman, our plan goes back to 1961 and for maybe the first 10 years of the plan part-time employees, that is, those who work a minimum of 20 hours a week on a regular basis, were eligible to participate and drop out as they saw fit. Then about 1971 the federal income tax was changed so that, once in, you couldn't get out and we saw a drop-off in the number of people in

that part-time category who participated. Out of maybe 9,000 active employees, fewer than 500 participated at that time.

Mr. Van Horne: Was the nature of the beast the same in 1961 as it is now, that is, the same type of person, by and large, students or females? Is that what you are saying?

Mr. McCall: The people working at least 20 hours per week or on a regular basis in our organization probably would be restaurant employees who may be with us for 25 or 30 years on a part-time basis. They would be the ones who might participate. The very casual ones would not.

Mr. Van Horne: You just have to wonder out loud if it's fair to compare the situation in 1961 with what we have in 1982. That's something we could ponder over for hours and still not arrive at a consensus, I am sure.

12:10 p.m.

Mr. Chairman: I am expressing arguments and messages I received as chairman, not my own views, of course. You have begged the question, really. You have stated that casual or part-time workers are not too anxious, in general, to join pension plans. Am I correct in that?

Mr. McCall: I would say so, yes.

Mr. Chairman: The question that you have begged is whether those same persons should be more responsible or self-reliant in old age, rather than relying on general government social service or welfare programs. This raises the philosophical question of whether, if they are not prepared to save for themselves, they should be required to set aside something for themselves.

Mr. McKichan: I must say, Mr. Chairman, as a committee we did not take a strong position on that actual question. Our thoughts were expressed that there is a nice balancing act between ensuring coverage and not at the same time creating a monster in the public sector, with the threat of large funds washing through the economy with all the implications that may have. But obviously these two considerations have to be balanced.

Mr. Riddell: This committee was asking for some clarification of recommendations 10, 11 and 16 in our interim report. I wonder if it would be appropriate at this time, Mr. Chairman, for you and Mr. Bentley to clarify those recommendations, in the event that they may wish to make further comments which could be helpful to us at this time.

Mr. Bentley: With respect to recommendation 10, if I recall the discussions, the reason for that particular conclusion was that transferability between employers of pension benefits credits is not easily solved because of the variety of types of pension plans that are in existence, and so on. To provide a vehicle for people to have their credits transferred, it seemed logical that a noncommutable vehicle such as a noncommutable RRSP,

would be one to where an employee could have any number of transfers made throughout his working life.

There would be the continual accumulation of these to be used for pension or retirement income at the time the individual elected to take that. It was only to provide another vehicle rather than to limit the recommendation to the straight transferability of the credit between employers' pension plans.

Mr. McKichan: I think, Mr. Bentley, our question was whether the RRSP would actually be run by government, or whether it would simply meet certain criteria established.

Mr. Bentley: I think the intent the committee had was that when the employee elected to have the transfer made it could only be made to a noncommutable vehicle, but would be under his direction, not something that would be under the direction of government. That set the criteria to allow the transfer to be made.

Mr. McKichan: That meets our concern with relation to that.

Mr. Rigney: I think it meets a second concern as well. When you look out down the field 20, 25 or 30 years, a lot of companies are going to have bits and pieces of pensions sitting there, and it could almost be compulsory to be moved into a vehicle of that nature so that the employee is protected and that income is protected. I think the area there that should be looked at is the ability, 25 years down the road, to handle that type or a series of deposits that he made that maybe did not qualify for the vesting, but, because of the rules, cannot be refunded to the employee.

Mr. Riddell: I think they said it in recommendation 11.

Mr. McColl: Recommendation 16 raises the matter of where that augmentation comes from, and whether you ever get rid of the liability, even if you transfer it into a registered retirement savings plan.

Mr. Bentley: I am sorry, I didn't--

Mr. McKichan: The question is, if someone has moved out of the plan, and if the accrued benefits have been transferred to an RRSP, in accordance with recommendation 10, is there still an obligation to enrich the plan?

Mr. Bentley: I would be extremely doubtful if there would be because if you make the transfer to an RRSP, it is the selection of the employee and it usually means he feels he can still go out on the market and get 15.5 per cent. The rate of interest usually takes into account, even though it may be a little bit behind, the so-called inflationary aspect, and this is what we were looking at. When you make that selection, you have one situation. You leave your deferred account in the employer's hands and you have a different situation. Both of them have to be looked at.

Mr. McKichan: That meets our query. Thank you.

Mr. Riddell: Just one final question. According to this brief, the Treasurer expressed some views on excess interest. Have we, as a committee, been made aware of the views he expressed?

Mr. Chairman: We have some speeches--

Mr. Bentley: On November 17, if I recall the exact date.

Mr. McKichan: He was speaking to a conference of the Financial Executives Institute, I believe.

Mr. Williams: It was a speech to the Financial Executives Institute, exhibit number 129.

Mr. McKichan: That's what we were referring to.

Mr. Williams: That speech you are referring to was made on November 17 at the Skyline Hotel.

Mr. McKichan: That is correct, sir.

Mr. Chairman: Are there any other points of clarification with Mr. Rigney?

Mr. Rigney: Mr. Chairman, I did not respond to that original question. I was thinking about the character and make-up of employees since 1961. I suggest there is very little difference between the 1961 people and the current people.

We have looked very extensively through one of the morale surveys we do, which asks a number of extensive questions on benefits. We verified these figures this morning because I have been using them in a couple of other cases. It seems our employees are telling us that, where there is a contributory plan involved, where they must pay a portion of the cost, they are not too interested in participating. I'm not certain now that is not equally strong in full-time employees as it is in contingent employees because, as a result of the federal budget and the indication that the health care premium will be taxable as employee benefit, we have had in excess of 6,000 inquiries across Canada to opt out of the plan. I find that rather shocking.

Mr. Chairman: It seems contrary to public policy, doesn't it?

Mr. Rigney: It does, but the other point really is, all of a sudden, if it's now going to become a cost to them--and many of those 6,000 employees are single people; many of them are single parents, where net income is important--it shocks me to think that many people would want to opt out of a program where they do not even know what the attached benefit cost is going to be to them at this point.

Secondly, I believe if we were to put our pension plan up for a vote--and we have a contributory plan at five per cent where each employee pays five per cent--probably if it went through, and it would just go through with a majority vote, people would vote for a pension plan.

Mr. Mackenzie: In the case of the part-time or temporary employees you were talking about, how much of the problem of the fewer than 500 in Simpsons is because there is no excess income there in terms of earnings?

12:20 p.m.

Mr. Rigney: Or they are not interested. They are simply not interested because there might very well be another component of the family who would have the retirement program. I believe that if we were to bring in a retirement program for part-time people we would have to mandate it to get participation.

Mr. Van Horne: Your brief may have had a little more clout if you came right out and said that. You are fairly gentle. On page six you say, "In our view any decision to require mandatory blanket coverage." I would not say you are waffling but you are being rather gentle on that. You should have come out and clobbered us with it.

You talk about 6,000 people inquiring about getting out of the health plan. A few sentences later I think you made reference to a majority being female and parents and sole supporter or whatever.

Mr. Rigney: I am sorry, when I said they were single people, I was not referring to female. We have as many single men working for us as well.

Mr. Van Horne: One gets the impression, however, that there is a significant number of females who will find themselves at retirement age without any form of pension assistance whatsoever. Maybe this mandating comment you made should be underlined. There comes a point where people may have to be forced to plan somehow or other for the future. I do not know whether you would agree with that or not.

Mr. Rigney: I do in principle personally. However there is a heavy cost to it as well. I think the other side that has always bothered me is the number of employees who will leave us at age 45 less one day and after 10 years service, so that they can withdraw that pension commitment that is already sitting there because they want to use it for something else. We have as many males leave as females leave for that very reason. It is discouraging because we have invested a great deal in that group of employees. To lose that experience is frustrating. Secondly, they are going to be the ones who are sitting out there at age 75 with a very minimal income, and I understand that.

Mr. Van Horne: I am curious as to your surveying the opinions and attitudes of employees. You do this through a scientific approach. Do you hire a consulting firm?

Mr. Rigney: No. We have used a major mechanised survey that has been available for a number of years. We survey every employee once every three years.

Mr. Van Horne: That is an internal--

Mr. Rigney: That is in-house. It is handled out of house as far as the putting together the information goes, but it is an in-house program.

Mr. Van Horne: Is that fairly common for a retail company?

Mr. McKichan: (Inaudible) requires this plus the temperature of the employee attitudes. It also allows management to ascribe priorities to new initiatives, benefits or anything else.

Mr. Rigney: Emp]oyees have told us two things in the last couple of years. They told us they wanted a dental plan and now they are telling us they don't want it. Secondly, they are worried about the economy and have been for the last 18 months in our particular business and they are concerned about hours. They don't want to work full-time, but they certainly want to work 15 to 18 hours a week.

Mr. Van Horne: Do you know why they wouldn't want it now? Why are they backing off the dental plan? Is it a fear of high premiums?

Mr. Rigney: Certainly an indication of a large group of employees is that they just don't want the additional costs and cannot afford it because it is a withholding tax, so it comes off that paycheque every pay period. They are just simply saying, "I cannot afford it. Things are tough enough as it is."

Mr. Williams: I think the definition you are giving us in the distinction you have made between permanent part-time employees and what you categorize as contingent employees is helpful to us; yet, on the other hand, there is still an area here that seems to defy absolute definition. That is coming back to the definition of permanent part-time employee. As you have done, distinguishing between contingent employees is helpful, but with regard to permanent part-time employees, again trying to get a handle on this as to the number of hours per week that would usually be prescribed to bring the person within that definition, of necessity will have to remain somewhat optional.

Mr. Rigney, as you will recall when you were before us a couple of weeks ago on behalf of your company, you pointed out to the committee that there was a certain minimum number of hours that had to be worked in order for the part-time employee to be considered permament and in order to take advantage of certain benefits that are available. I think you used two thirds of the regular work week, which worked out to 23 hours, I believe, or 23.5 hours. I hear Mr. McCall saying that under their plan it is 20 hours minimum.

The other day we had before us the Ontario Nursing Association. I tried to elicit from them what their definition of a permanent part-time worker was because in the very nature of their profession, of course, very many of their employees are on a part-time basis. They simply said that a permanent part-time worker was anyone who worked less than the full number of hours in a week.

After persisting, they finally brought it down to the number of hours worked on a prorated basis over a year, which I think would be a minimum of seven hours a week or 48 weeks of the year, something like that.

Depending on the given type of occupation and given the in-company working arrangements that can fluctuate, I suppose the only unformity one can apply is that they are working on a regular basis, as you have indicated in definition, and on an ongoing basis where they are expected to come in and work those regular hours, they are not free agents, so to speak, to come and go as they are called upon, but it still doesn't give a clear definition. I don't know whether we ever will be able to do so for regular and permanent employees, using the number of hours worked formula.

Mr. McKichan: Mr. Chairman, I think any such definition would be obliged to be arbitrary because it would not fit every employer's individual classification. Within our industry we know that different employers have different criteria and there is quite a wide range in establishing that differential. Some employers do not even make that distinction. They treat everybody as part-time, regardless of the number of hours they work or with the regularity or with their degree of optionality, if you like.

Mr. Williams: I guess that probably leaves with us that dilemma of whether it is realistic to try to attach a prescribed number of minimum hours in a week or simply stay with the broader definition you have used as the best we can achieve under the circumstances.

Mr. McKichan: I should just add that we have quarrelled from time to time with the federal Department of Employment and Immigration with regard to some of the definitions they have used in relation to attachment to the work force for the purpose of paying unemployment insurance contributions. We think that any scale which is tied to dollars is inappropriate because that could vary enormously depending on the remuneration of the individual. We think their current test in terms of hours as one of the options is somewhat low. We would have suggested 20 hours as the minimum.

Mr. Williams: I see. When Mr. Rigney was here the other day, speaking to us in a slightly different capacity, it was the first time that I and, I think, other members of the committee learned of the fact that your industry was somewhat desirous of having pension programs apply to the permanent part-time workers. They had been proceeding under the impression prior thereto that large retail firms in the service industry such as yours were very much against it.

12:30 p.m.

Mr. McKichan: I think you will find quite a sharp difference in opinion by employers. Some employers may favour that. The question may have suggested that it was your understanding before Mr. Rigney's appearance. Other employers, I know, are not in favour of that.

Mr. Williams: I must say that he was speaking on behalf of his own company only at the time. I understand that it did leave the impression that there isn't an across-the-board resistance to the current set within the given type of industries as I think we have been left with the impression prior thereto.

Mr. McKichan: There is certainly a range of opinion.

Mr. Williams: They are also somewhat interested in hearing about the things that Mr. Rigney has stated today about the number who wanted to withdraw from some the plans that they have because of federal tax adjustments and the budget that seemed to adversely impact on these employees.

As well, while not a majority, nevertheless there was a significant number--I guess again you are referring to your own company, Mr. Rigney--of part-time employees, as I understood it, who had shown a degree of interest in pensions even though it may have been of a contributory nature, but mostly those who are of a non-contributory nature.

Mr. Rigney: Yes, non-contributory--they'll take them all. My opinion is that in our own company our contingent employees would be vastly against a pension plan.

Mr. Williams: Oh, yes, contingent, I agree. But did you not say that those who you categorize as permanent within the definition of your working agreement, that while the majority where there was a contributory plan were not too enthused about it, nevertheless there is a significant interest shown by some of those employees.

Mr. Rigney: You are talking now about full-time people?

Mr. Williams: Yes.

Mr. Rigney: Yes. I think that it changes every year on us because we are starting to age as a company. We are not 300 years old as the Bay is, so we have still got young people working for us. We are starting to age as a company and we find more and more that there is more than interest in the pension issue within the company as the company does age. But I can assure you that when we hire a 25 year-old employee today or 19 years--

By the way. an interesting fact which I have never give you is that we have an opting-out rule in our pension plan. Up to age 25, you can opt out. Our pension payment then is based on pensionable years of service. We have almost a 95 per cent picking up of the opting out to age 25 by our young employees, which is really a surprise.

Mr. McNeill: They never go in.

Mr. Rigney: They never go in until they are compelled to go in at age 25.

Mr. Chairman: Mr. McKichan, if I can interject here for a moment along the lines of Mr. Williams' questions, you've indicated that over the last several months the independent stores committee of the retail council has been investigating the possibilty of the council offering a uniform pension plan adapted to retail needs and accessible to all retailers in Canada. Is there a lot of interest in that? I am just wondering if you could gauge the success. I presume that would be on a voluntary basis, or are you finding that some small retailers have now the conditions of employment that require the employee to join the pension plan?

Mr. McKichan: For our members or other retailers participating in the plan, it would, of course, be voluntary, depending on each member. As far as the employees are concerned, the terms of the plan have not been locked up yet. The type of plan we are looking at is a one-year qualification period in employment, but after that mandatory inclusion for defined categories of employees, the definition of who would be included or who would be excluded would be in the hands of the individual employer; so he could include part-time employees or he could exclude them, depending on his personal preference.

So far as the degree of interest is concerned, we did a sample survey of about 300 of our independents. We found that of that group, 70 per cent said yes, they would participate in a plan. Some of the others, of course, already have plans, so it is not to say that only 70 out of 300 were interested in pension plans. We did not ask whether they already had a plan of their own.

We hope to make it available not only to our own direct members, but also to the members of our affiliate associations. Many of the specialist retail trades by sector are affiliated with us and we plan to make it available to their membership as well.

Mr. Williams: I just had a couple more questions if I might, Mr. Chairman. Coming back to page three of your brief, there are two questions of clarification that I am seeking on your points. With regard to your fourth point regarding the system to be utilized for calculation of interest on refunds to be made on the termination of employment of unvested employees, I am sorry, I cannot recall what the Saskatchewan approach was that you are recommending be applied in this given situation.

Mr. Rigney: Saskatchewan's revised act now is 45 and one for vesting purposes. Am I correct that 45 and one is the new Saskatchewan law?

Mr. Bentley: Yes.

Mr. Rigney: And so for those people who withdraw prior to meeting that, the Saskatchewan government now imposes, through legislation given to us in November of each year, an interest rate that we will pay on those deposits at the time of withdrawal. It is based on the average of Canada savings bonds over a 10-year period, I believe.

Mr. Bentley: Ten years or seven, I cannot remember.

Mr. Rigney: I think it is 10.

Mr. McCall: (Inaudible) it is a lower premium.

Mr. Rigney: Yes, but it will progressively come in that way. I think the royal commission is suggesting tying it to one per cent below the chequing account. Is that what they recommended? Or your select committee recommended one per cent below the--

Mr. Williams: Non-chequing.

Mr. Rigney: Which is very volatile for one thing. It really moves up and down.

Saskatchewan seems to be a pretty good compromise. This is what we would see as being the possibility for Ontario to consider. As well, it gives some consistency to what is happening across the country.

Mr. Williams: The other point was your number six item: "We note the difficulties of establishing a mandatory requirement for representation on the controlling body of pension funds. Because of the difficulties, we suggest encouragement rather than compulsion."

I presume you are referring to recommendation 15 of the select committee's interim report.

Mr. McKichan: Yes.

Mr. Williams: That being the case, what were the difficulties you identified in your own minds that make you conclude that the mandatory aspects of that recommendation be modified to remove the compulsion element.

Mr. McKichan: It is really two areas. Typically in our industry in a company of any size, the work force will be broken down into numerous small units, often geographically dispersed. The employees typically are not familiar with any of the employees in any of the other locations, so it is very difficult for them to make a decision as to who is an apt representative on the plan simply because they do not know the people concerned.

Secondly, our industry is, to the extent of perhaps 15 per cent, unionized and the balance is not unionized. It is difficult to organize any form of election system without the mechanism of a union organization there and, at the same time, to surmount the problems of unfamiliarity with employees and to have a reporting arrangement back to the employees concerned.

12:40 p.m.

That is not to say that companies who have pension plans have not got employee representatives on the controlling body; they often do. But it would be difficult, we think, to establish the right kind of mechanism on a mandatory basis to have a truly representational type of representation. The employee concerned is

often selected by management as a union representative because of his knowledge, as being a good kind of spokesman and a knowledgeable and conscientious person. It is not an easy thing to arrange in our industry.

Mr. Williams: So the difficulties that you are noting with regard to item six are difficulties as they relate to the particular retail industry in these unique situations you have now identified.

Mr. McKichan: That is correct.

Mr. Chairman: And which you have overcome on a voluntary basis in the past--at least in some of them.

Mr. McKichan: I think in a majority-- I should not say that because I do not know the actual figures, but I think a reasonable number of employer plans will have employee representatives on them. Certainly the big ones tend to do that.

Mr. Rigney: In our particular case we have 14 trustees to handle our plan, seven of which are employee representatives. We try to pick them geographically across Canada. They are replaced every two years; there are always three or four coming off every second year. We leave it up to local management. First of all, to become a trustee, they have to be a member of the plan. They cannot be one of the ones who opted out or who are using a profit-sharing plan.

Secondly, the other qualification--and we do not lay it down; we are unaware of the names of those who are going to come in--is whether they will be the kind of person who could comfortably sit down and deal with senior management. As you know, in most companies the chairman and president sit on those boards as well.

In our particular case, because all the investing is done outside the company, even outside this committee, they certainly do not have to be accountants; they just have to be lay people who can hear what is happening, be satisfied that what is happening is right and report it back to the employees, as they do on a once-a-year basis. It works very well.

Mr. McNeill: That is true of our company as well. They are 12 in number, but it is a half-and-half split, and it operates much the same way as Simpson-Sears.

Mr. Chairman: Are there any further questions? Thank you very much, gentlemen. You have been very helpful. We appreciate your coming before us.

Mr. McKichan: Thank you for having us, Mr. Chairman. We appreciated the opportunity.

Mr. Chairman: The committee stands adjourned until two o'clock.

The committee recessed at 12:43 p.m.

PR-20

SELECT COMMITTEE ON PENSIONS

CANADIAN FEDERATION OF INDEPENDENT BUSINESS
Y.W.C.A. OF METROPOLITAN TORONTO

MONDAY, JANUARY 25, 1982

Afternoon sitting

SELECT COMMITTEE ON PENSIONS

CHAIRMAN: Taylor, J. A. (Prince Edward-Lennox PC)
Brandt, A. S. (Sarnia PC)
Cousens, D. (York Centre PC)
Cureatz, S. L.; Deputy Speaker (Durham East PC)
Gillies, P. A. (Brantford PC)
Haggerty, R. (Erie L)
Jones, T. (Mississauga North PC)
Mackenzie, R. W. (Hamilton East NDP)
McClellan, R. A. (Bellwoods NDP)
Riddell, J. K. (Huron-Middlesex L)
Van Horne, R. G. (London North L)

Clerk: Arnott, D.

Researcher: O'Mara, Dr. J., Legislative Research Service

Consultant: Bentley, W., Superintendent of Pensions, Pension Commission of Ontario

Witnesses:
From the Canadian Federation of Independent Business:
Gray, B., Director, Provincial Affairs
Haehling Von Lanzenauer, Dr. C., Professor of Management Science, School of Business Administration, University of Western Ontario
Wietfeldt, R., Director of Research

From the Y.W.C.A. of Metropolitan Toronto:
Campbell, J., Social Action Coordinator
Gislason, L., Member, Social Action Committee

LEGISLATURE OF ONTARIO

SELECT COMMITTEE ON PENSIONS

Monday, January 25, 1982

The committee resumed at 2:09 p.m. in room No. 151.

CANADIAN FEDERATION OF INDEPENDENT BUSINESS

Mr. Chairman: Gentlemen, you now have in your binder exhibit 176, which is the submission re the Ottawa-Carleton Board of Trade members' retirement plan. The other exhibits will be properly entered by tomorrow. The current submission from the Canadian Federation of Independent Business is now being distributed and will be entered as exhibit 184. Are those submissions handed out?

Clerk of the Committee: Yes, I believe so.

Mr. Chairman: Mr. Brien Gray. Mr. Gray, would you come forward, please, with as many of your cohorts as you have assembled and, if you wouldn't mind, introduce those appearing with you. Your brief is now being distributed amongst the members who are here. There should be one or two other members coming in shortly. I thought in the meantime you might wish to introduce those people appearing with you.

Mr. Gray: Mr. Chairman, and members of the select committee, I would like to thank you for the opportunity to appear again this afternoon. As you remember, the federation appeared on August 25 in a preliminary way to discuss the pension reform question in Ontario.

I am pleased to be able to be here to represent 63,000 independent owner-managers throughout Canada, of which 28,000 are Ontario residents. I would like to briefly introduce myself and the other representatives of the federation here today. I am Brien Gray and I am director of provincial affairs for the Canadian Federation of Independent Business here in Toronto. To my immediate left is Dr. Christoph Haehling Von Lanzenauer, who is a professor at the University of Western Ontario School of Business Administration. On my far left is Richard Wietfeldt, who is director of research with the Canadian federation here in Toronto. In addition, in the background is Jason Mandlowitz, who is governmental affairs officer responsible for Ontario affairs.

I would like to apologize for the lateness of our submitting the text into your hands. Unfortunately, other constraints, such as budget preoccupation, kept us from getting at this as quickly as we might have. I thought that today, if you are in agreement, Mr. Chairman, I might proceed by asking Richard Wietfeldt to give a brief summary of what is in the text and to describe in some detail our recommendations and then to go to questions. As I myself am not an expert in this field, I would like to refer this kind of thing to my experts on the left.

Mr. Chairman: Very well.

Mr. Wietfeldt: Thank you, Mr. Chairman. I will not read the whole of this submission as I think going through it in outline form will highlight enough for you so that you will see it is quite worth taking home and re-reading. There is a lot of information in here. You will recall that in August when Miss Patricia Johnston and I were here we told you about a research project that was ongoing at the time. That has now been completed by Dr. Haehling Von Lanzenauer. Part of our submission, or a good part of it, is to summarize that study for you. I will summarize and perhaps read a few sentences, but for the most part I will simply refer you to the pages so you can note some of the more important parts. I think it is all very worthwhile reading.

At the beginning, we simply refer once again to the most important facts about the small business community which are important features to recall every time you start to think about some measures to help small business. First of all is its very small size. While they are 95 per cent of the businesses in the country, by and large, there is a great variety within the small business community. So 85 per cent of our members--and we reflect generally the whole small business economy very closely by region, by sector, by size--employ fewer than 20 people. Ten per cent employ between 20 and 50 people and a further five per cent employ more than 50 people, that is, from 50 people up to perhaps 500 people as a rough number.

All the same, a substantial portion--probably 40 per cent or so--of employees of small and medium-sized businesses are in the firms that have 50 employees or more. There are a great number of small businesses, a fewer number of the more medium-sized ones and still a large portion of the employees in the small-medium business sector as a whole are in that larger group.

The other important factor that we have noted here at the beginning is the age of the firms. Thirteen per cent of our members have been in business only one or two years and 32 per cent for five years or less, so fully a third are young firms. Actually, if you look at the small business universe, our membership is more representative of the mature firms. This actually should be a little bit higher, but even for our membership one third are firms that are in the process of getting established. Some of them can establish more rapidly, but for many of them five years is still a fairly short term. Many of them are new. They are usually having financing difficulties, tight cash flow. Imposing a level of pension on them that might seem fairly small to a mature firm--say, two per cent of payroll for employer contributions--would be a major significant factor in the life of a business just trying to get established.

Mr. Chairman: Do you have any figures on the number of those firms within that 32 per cent that actually go out of business and are replaced then by others?

Mr. Wietfeldt: It is in the range of six to eight per cent of all small businesses, not just the new ones.

Mr. Chairman: I was wondering how transitory that one third was, or whether it is a fairly stable, consistent base.

Mr. Wietfeldt: The one third would probably be fairly stable in the sense that six to eight per cent of all businesses seem to go out of business every year. That is a fairly stable figure. It is going up in hard times like these and might be a little lower at other times. Then, again, six to eight per cent are starting.

In the first five years particularly, there is a very high failure rate, and certainly more than half of the actual number of firms that begin are no longer there at the end of five years. There is a consistent large portion of all businesses which are new firms. Those are the dynamics of this sector, and it also presents the caution of doing things to them that make it difficult for them either to take on the risk in the first place, or carry it through to actual establishing for the few that can do it.

Our point there is it would be very imprudent generally to impose any burden on them, such as a uniform pension requirement, whether by private sector or a public fund of the type you are considering in the provincial universal retirement system. But, at the same time, we certainly would say that things that can be done to help and encourage them towards better pension planning for themselves and for their employees would be a good thing.

Mr. Chairman: I will not be interrupting you any more, but does that include the Canada pension plan? Would that be too onerous as well?

Mr. Wietfeldt: Our recommendation at the end, based on a direct study, talks about--

Mr. Chairman: I mean the present Canada pension plan.

Mr. Wietfeldt: We do not think it is necessary or justified to increase the benefit levels of the Canada pension plan.

Mr. Chairman: The message we have got so far is that this group of small businesses, if they are just starting out, are having a pretty tough row to hoe and a PURS program might be the last straw--

Mr. Wietfeldt: For a number of them, yes.

Mr. Chairman: --in terms of whether they are viable businesses or not. I am asking you whether the Canada pension plan adds to that. I am not talking about an enrichment of the Canada pension plan. I am suggesting that if they were exempted from the Canada pension plan for those first five years, if that would be--are they that precarious that they would have to be exempted?

2:20 p.m.

Mr. Wietfeldt: It may not be necessary for some of them. A great variety of them are profitable much earlier than others, but there would certainly be a great portion of them that would not be profitable for the first several years and any break like three points or several percentage points of a payroll would be a significant factor.

Mr. Gray: It would not be the same for a company that is highly labour-intensive. It certainly would mean a great deal of difference on the capability of that firm to conduct its affairs with respect to cash flow, but for a firm that is maybe highly capital-intensive it might be quite different.

Mr. Chairman: To be perfectly blunt, it has been thrown out to us--sure, we have heard all this before--that when the Canada pension plan was instituted this was supposed to happen, but they seemed to manage pretty well. Now we are talking about enrichment or additional premiums, so they say there will be a problem, if you are worried about that type of thing. That is what I am throwing out to you.

Mr. McClellan: Which one are you throwing out? The present proposition or the potential increase rate?

Mr. Chairman: The impression, I am throwing out--I should not say throwing out; that is a bad choice of words. You don't throw out anything around here.

Mr. McClellan: You would if you could.

Mr. Chairman: We are very good conservators. What I am conveying to you is the impression that I have received that the implementation of the Canada pension plan was not too traumatic an experience in terms of small business when it was instituted. Therefore, an enrichment of that may probably or could probably be stimulated the same way. That is the message I was putting out to you that you might at some stage respond to.

Mr. Wietfeldt: I will respond right now. We have seen measures of that type imposed one after the other, and I don't say that with prejudice. Our members certainly favour an adequate contribution from themselves. We have asked them that. I think it is summarized later in our submission where we have asked them recently, "Should benefits right now be increased to elderly at the present day?" They are for that.

We have imposed on the independent business sector, uniform with large businesses and often sort of by accident on small businesses, things which we have imposed for other reasons on larger companies and on the corporate sector. These have been imposed one after the other and it may be impossible to tell whether the very generous in the view of our members, disastrous type of unemployment insurance, had devastating effects for so many thousands or tens of thousands of businesses. That cannot be measured at any one time, but the clear message from our members is that--like the postal strike, the increase in unemployment insurance as contemplated in recent things that were brought down, the increase in Canada pension plan and so forth--each one of those are triggers for a number of individuals, "That is it. I am packing up. I am selling. I am going to New York," or "I am retiring early. I am getting out. I can't take it."

It is not a question of being able to measure for any particular one what the effect is, but that it happens is a very clear thing. From correspondence we have we could give a few examples out of the total universe for any one of the particular measures that happen--little increments at any one particular time.

From this point on, with those two things in view about the small business sector, we simply summarize the study by Dr. Haehling Von Lanzenauer. I also want to apologize. We have left out the Haehling in each case. Haehling Von Lanzenauer is actually the last name of this eminent person, and I didn't quite realize that Haehling was a part of his family name.

Mr. Williams: Spelt?

Mr. Weitfeldt: Haehling.

Mr. Williams: Thank you.

Mr. Weitfeldt: In August we told you that we had taken this pension survey of our members last February and March. We had some 1,200 responses out of 4,800 or so, around a 30 per cent response of our members, a random sample, and we tabulated those. Then subsequently Doctor Haehling Von Lanzenauer interviewed 52 of those firms, both the employer or manager of the firm and some 52 employees in the firms. So he had the benefit of our survey, and then he continued to do interviewing at both the employer and employee level in the firm. Our view is this is a very important study. We have it here simply in draft form and it will be available in a matter of short time for public use and discussion.

Our view is that it is a singular contribution to the whole pension debate because what it does really for the first time, and certainly for the first time for the independent business sector, is focus on the various levels of measures that small businessmen and their employees use to provide for their retirement income. That is the proper word rather than simply "pensions," because there are a number of other vehicles for their retirement income. It makes an analysis of individuals, not just for Canada pension plan and OAS, not just for any company pension plans they have, not just for any other employer plans they have, but also for the actual level and the extent of any personal RRSPs they have.

Another level is that of things that are not tax-sheltered, their personal savings, capital accumulation in the business, in their homes, insurance policies, properties and so forth, any capital accumulation they have. Furthermore, the analysis tries, wherever possible, to take into account not only the individual, because that is only a fraction, but also the entire family unit, the couple or the family. It is, for the first time, I think, an integral view, looking at pension reform not from a viewpoint of saying, "Here we have some general statistics about how many people are covered by company plans; therefore these others have nothing," but looking at individuals who, as far as we know, are typical in the small business community and then asking: "What is their actual coverage? What is the depth of the coverage? What is the actual effect or effectiveness of the whole planning likely to be in their individual cases?" Then it moves from there to say, "Now what does that tell us about policy?" That is the procedure through the rest of this.

One of the major things in the pension debate has been--the statistics are fairly poor--that coverage in the private sector is variously estimated, but certainly coverage in small and medium-sized businesses has been thought to be very low. Our survey

showed that approximately 21 per cent of the employees in the firms that responded, some 1,200 firms, were covered by some form of company pension plan. However, when we went out for interviews, we found a number of them had failed to mention plans they contribute to that are union-administered. The employer contributes but does not administer, which would bring that up to some further amount. An initial estimate showed 25 per cent. In any case, something in the range of 21 per cent is the result of this survey of employees who are covered by formal pension plans.

On page six, the first table would be interesting for you just to compare the results showing the coverage by type of plan. For those with registered pension plans, in the private sector 90 per cent of the persons enrolled are covered by defined benefit plans. For the independent business sector, money-purchase plans are much more common and are, in fact, the greater number of plans. But still 60 per cent of the members, rather than 90 per cent, are covered by defined benefit plans. There is a slight correction on that table. The third heading down on the left should read "Registered deferred profit sharing pension plan," because there is a distinction.

2:30 p.m.

On page seven, in addition to the regular company pension plans, as we usually refer to them, for larger firms, there is a second level of employer plans that are more informal but are widely used in small businesses. The first one is deferred profit-sharing plans. This is the deferred profit-sharing pension plan but the more broadly used vehicle, which we found to be widely used for owner-managers and maybe for intermediate managers and so forth. It is much less used for employees, but approximately one per cent of employees were enrolled in those plans. That was all in addition to the regular company plans where 21 per cent plus were enrolled.

The second more informal employer plan is group RRSP. These are oftentimes fairly informal, where the employer will contribute to the employees' plan, whether really administered as a group or not but to their individual plans. We found that the range of contribution was from two to five per cent of salaries per year on the part employer. About half of them involved employee contributions as well.

In table two on page eight, we have summarized the progress so far. You see there the coverage ratio as a percentage of all owner-managers and employees, registered pension plans for the employees, 21.4 per cent; these other profit-sharing plans, one per cent for employees; group RRSP, 3.6 for employees, for a total of just under 26 per cent, plus whatever there is in union plans that they forgot to mention. The coverage, when you take in all of the employer-sponsored plans, is considerably more than has often been mentioned.

On page nine, the third level of pension coverage that we have analysed is the personal RRSPs. This is a vehicle of great importance. Our owner-managers had 60 per cent coverage, in addition to the four per cent that belonged to group RRSPs, and 36 per cent of their spouses had individual RRSPs. Of the employees interviewed, 52 per cent had personal RRSPs.

You will probably recall statistics, which are somewhat uncertain to be sure, but all the same, the figures in volume VIII of the Haley commission report showed that on average Canadians contributed in 1976 something under 11 per cent and small businessmen had, mysteriously, 16 per cent. Our survey shows a much greater proportion than that are using these, and of employees as well. The actual level, of course, is quite individual. We will refer to that in the later example that we actually use.

Final level is personal investments of various types that are not tax-sheltered--personal capital accumulation, as I mentioned in the various forms, and for the owners, equity in their own business. A large majority--86 per cent--of owners indicated they would use some of this capital accumulation and 72 per cent of the employees said they had some form of capital accumulation, oftentimes their homes. That is not entirely available for use because they either have to pay rent or continue to have their homes. In any case, there is savings of that type which goes on.

The last in the personal provisions that was frequently mentioned, particularly by owner-managers, was the intent to continue at least part-time productive employment in the retirement years. For the owners this was quite often an expression of their wish and they didn't need to; for employees quite often they were not sure of their pension plans and felt, while they hoped they didn't have to, that they might have to. As our analysis goes on to show, for the most part a minimum of care and planning on their part, provisions will ensure that in fact they do not have to.

The important thing in the analysis is to add together these four levels for any individual coverage with the public plans plus whatever provisions he makes for himself and his wife, or she and her husband. The important thing is not only just how many levels are covered, but precise analysis is necessary of what exactly can be a reasonable projection of the yield, based on the level of savings in any of these particular vehicles. That is what we have done; not that we have done it for all the 52 employees, because it is a fantastic job and is a very expensive thing to do.

But we did take four examples and run them out with projections. If inflation is 10 per cent a year, if the average industrial wage goes up 11.5 per cent a year, if returns on investments for the money-purchase plans, et cetera, average 12.5 per cent a year and these projections are all run out to year 2040, or whatever is required for the individual at his age, his salary level, his personal savings level and so forth, then what is the actual yield, and how does it square up with what would be an average industrial wage, or 75 per cent of it, with his own projections of when he can retire and at what level he expects in retirement.

All the people we studied were between 27 and 40 years of age. That is significant for two reasons. One, most persons, as shown by statistics which you have probably seen, do not save at the same levels when they are between 25 and 40 and are first raising their families. They do not save at as high levels as subsequently. Their contributions to RRSPs, personal savings and so

forth are not as high in their younger years. We have made these projections on the basis that if he is personally contributing one per cent a year to RRSPs now, he will continue at that rate and not raise it. In other words, our estimates are extremely conservative on that ground.

Secondly and on the other hand, they are projections from these years. Somebody who is only starting to plan his pension at 55 obviously does not have the advantage of these persons, but that is to be taken for granted of course. We have, from page 13 following, simply included one individual analysis to show you what type of analysis it is. The four examples are not unusual. One is unusual for taking virtually no measures beyond the public plans. It shows that his pensions are not going to be very adequate.

We have taken three employees. This particular employee has no company pension plan, but does have a personal RRSP. In another case, the employee was sort of a middle manager, who does have a money-purchase plan with his company, but not a personal RRSP; and the other one was an employer-manager. This particular individual was aged 32, with a current income of $18,000 per year, which included $1,000 income from investments. He does not have a company pension plan, but he has accumulated $15,000 in a personal RRSP.

He hoped to retire at age 55 with an income level of nearly $20,500. That proved to be impractical. When the projections were run out, it simply did not work. But when we made an analysis for him for retiring at the age of 65, and continuing to contribute at the RRSP at the rate that he was then contributing and continuing OAS and CPP at the current rates, the result is as on page 15.

The black line shows the benefits to be expected per year for this person from all of the sources together. It shows that his personal goal is exceeded, first of all, at age 65; then it drops somewhere below that line. That is because when he cashes in his annuities from the RRSPs, they are eroded with inflation because there is no indexing. Then we have assumed that at age 71, he cashes in the remainder of his RRSPs for annuities, and again his income has jumped significantly, but with 10 per cent inflation, it is eroded rapidly.

A further analysis could be made, and that is some more evening out could be done with another pulsing or two of the pension benefits to even this out, and it would be possible for him to have a much more even line and also a line more satisfactory with regard to his personal goal all the way through age 85 or 90. That is a kind of analysis. It is done, as we say, on a conservative basis.

The clear conclusion from this type of looking at four different individuals is that the vehicles, right now, if they are maintained, are there for the present generation to plan for pensions if only they make use of them. By making use of them, we mean at least make use of one individual vehicle beyond the public plans, beyond old age insurance and beyond the Canada pension plan. If they either have a company plan or they have an employer plan, like a group RRSP, or they have personal RRSP or they have

significant capital accumulation at moderate levels or at any one of the levels, let alone if they lump several together, an adequate pension is assured and a quite generous pension is possible if several of these layers are utilized.

2:40 p.m.

From page 17, we discuss the implications in a little more general form. If the measures are there and they are adequate but for some individuals, as for this one that we looked at, they are not being fully used, then the question is how to encourage them to use them or what is the government's responsibility in this, as some people would say, to impose usage.

Our view is that the case for imposing has not been made, has not been justified. It hinges to a good extent on whether the role of the government is to impose or assure a level that is beyond a minimum human standard, a level of fairly significant comfort for all of the people, regardless of what provisions they make for themselves, or, on the other hand, and that would be our view, that the government's role is to provide, as it does now, a minimum basic level. As we say later in the recommendations, that should be increased to some extent for the people who are caught in this transition in the current generation.

In future, the role of government should not get into the area of getting beyond the basic level of coverage to levels of assuring comfort for everyone when there is provision for them to do it for themselves. The reason is that the imposition is not only to imply that only government can or that the government must do it, but for the reason that in the case of the burden on business of something that is imposed on them, it is impossible to measure which businesses can stand it and which cannot.

It is simply impossible to find the exact effect of those impositions, of the cost, of the administrative burden, of dealing with actuaries and simply the time on the part of the owner-manager when he is trying to establish a business. For those reasons we feel that it is totally unjustified to deduce from the fact that not all people are currently covered by levels beyond the public plans that they have to be required to be covered either by a greatly expanded Canada pension plan or by a mandatory plan, something like PURS, or by mandating individual companies having to find private pension plans for themselves.

I think we will go on then to recommendations on page 21. The first recommendation is that as a result of this analysis no basic overhaul or major reform of the pension system is required or justified. I just summarize the three different types we have included in that.

Second, the immediate problem of inadequate retirement income for many elderly now and in the near future should be met by increasing the amount of supplements through GIS and Gains. It is inappropriate to call this social welfare as though it was a benefit beyond what is due. These elders have been caught in the transition from the previous arrangement of continued employment so long as they are able, have support by children, and help for the indigent from private charities. They cannot be expected to have

anticipated the social and economic developments of the nucleated family, the specialized mass production system which institutionalized obsolesence and mandatory retirement at age 65, and the centralization of the social welfare system from individual charities. Our formal pension plan system is too young to help many of them. The ravages of inflation were foreseen by no one. An adequate level of retirement income from public funds is but the due of these elderly.

The third recommendation deals with the employer-sponsored pension plans. We agree fully that they require updating. The outstanding issues are the lack of portability with loss of benefits for mobile employees; frequent absence of survivors' benefits; and the entire funding of some defined benefit plans by employees' contributions. There are other problems as well. The condition of greatly increased mobility of employees and the high levels of inflation must be recognized.

The reforms should be carefully weighed, however. Legislation that treats a long-service employee no differently from transient ones, that is, those who move frequently after less than two to three years' service, will not only be unfair; it will tend to discourage the very prosperity among many firms that makes possible the opportunity for mobile employees.

The vote of our respondents to the pension survey reflects this feeling of employers that they need to recognize and reward the loyalty and continued commitment of long-service employees. Seventy-two per cent of respondents said that a service period should precede vesting of employers' contributions. Of those who answered, 39 per cent said this should be two years, and 53 per cent said more than two years. The incentives or discouragements to superior effort are also part of the considerations of justice, not only the prima facie equity, which effectively counts in or weighs in only the rights of the most mobile employees.

The study we have just summarized has confirmed the very considerable role that has been played in the independent business sector by these tax sheltered vehicles, personal RRSPs particularly, deferred profit sharing plans, income averaging annuity contracts, and others. These provided flexible retirement income vehicles that were well suited to the varying needs of both employers and employees in small- and medium-sized businesses. Every practical avenue to keep these readily available and easily accessible should be opened.

Instead, in the recent federal government budget there are measures that restrict RRSPs and deferred profit sharing plans, the latter being restricted only to employees, and that disallow IAACs altogether. We hope these measures will be rescinded in the near future. A major consideration is that the maximum contribution limits for RRSPs should be indexed, at least with inflation. Also, the deadline for deregistration of RRSPs should be extended beyond age 71 to help cope with continuing inflation. You saw that in the particular example we looked at.

It is obligatory that all parties involved work towards making more available for small business easily administered

private sector company pension plans. You heard on Friday morning about the initiative of the Ottawa-Carleton Board of Trade, which seems to us a very helpful measure in this regard. Dr. Haehling Von Lanzenauer found, during the interviews, a regrettable lack of understanding of retirement income planning in the small business sector. No doubt this is true of much of the general public.

It is a challenge of considerable urgency to better educate our citizens about the importance of and effective ways to provide for their retirement income. This will require a multi-faceted effort, which involves at least the high school and community college system and the network of business assocations. Government agencies directly may have a role as well. Certainly, employers have some responsibility and we must help them realize and meet it.

It is a common principle with obvious foundation that a society is stronger to the extent that many individuals are equipped and able to provide for themselves and control themselves, as opposed to relying on coercion and provision by others. This is simply consonant with the intellectual and free nature of the human person. This principle is not limited to any particular political theory or system, but in a society that holds dear democratic principles, as does ours, this basic value should be all the more obvious.

It is our view, then, that the general public should be universally exposed to information about and encouragement towards the existing vehicles for providing retirement income, rather than forced by law to use them or to tolerate a new comprehensive, imposed layer of pension regulation or system. By removing more personal responsibility, such imposition would impoverish them as citizens and persons.

I am sure more technical questions may be appropriately answered by Dr. Haehling Von Lanzenauer. We will certainly try to answer all your questions.

Mr. Chairman: Thank you. That was very interesting. Mr. Williams, did you have a question?

2:50 p.m.

Mr. Williams: Given that your conclusions are that you would not support any initiatives to enrich the pension field at this time, either through public or private plans, because of the adverse effect on the small employers as I read into your brief, allowing for the fact that we, as a committee, are likely to nevertheless select one of those routes or some variation thereof as a desirable social objective, what would be your preferences as to the options that would be exercised in so far as benefiting your constituents in particular? I don't know whether you wish to answer that or Dr. Haehling Von Lanzenauer.

Mr. Wietfeldt: I am not sure I understand why you started with the premise. You are saying, "It looks interesting but we disagree with you. Now, what would you suggest if we--"

Mr. Williams: That's right. On page 21, your

recommendation one makes it clear that you feel the three options spelled out there are all inappropriate and cannot be supported in analysis. Given the position you have taken, assuming that this committee was to act on one of those three options, which of them would be best suited for your clientele to adopt?

Mr. Mackenzie: John is saying that (inaudible) recognize that you don't have too much support in that position.

Dr. Haehling Von Lanzenauer: The position taken is based on the assumption, with which you may disagree, that the system currently in existence, based on our analysis and our findings and our calculations--which once again are done under very conservative assumptions--seems to be capable of providing adequate pensions if planning is done early and in a modest fashion. I think it would even provide a reasonable pension if more was being set aside. Having said that, I would like to reiterate that it seems the system currently in place is doing the job provided individual members of society, and maybe specifically of the sector we are representing, are encouraged by various forms, one of them being tax incentive schemes.

Coming to your specific question as to which I would recommend, given what I have seen, and I stand to be corrected here from the contacts I have with the independent business sector, it would appear that the plans which provide the firms with a great deal of flexibility seem to be most desirable. I have talked to firms and frequently the circumstances are that employees are being hired on really to learn, to be trained, and 12 or 18 months later they leave and go elsewhere, so employers reluctantly find it difficult to support these people in retirement income provision on top of the learning experience they have provided.

I would think some system which allows the employers and employees--and I think the opinion in that sector is that it should be a shared responsibility--a maximum degree of flexibility would be desirable. On top of it, I think many of them--and that certainly came as a very pleasant surprise to me--felt it was desirable to provide for their retirement income on their own to a large degree, rather than relying on a public system if this was possible, if the framework was in place which allowed them to do so.

Mr. Wietfeldt: I would like to respond to one remark you made, that we oppose the enriching of private sector plans. That is not so; we do not. We are for enriching, but we are not for imposing it. We believe that through steps taken to encourage initiatives like that of the Ottawa-Carleton Board of Trade and a number of others from the insurance industry that could be mentioned, a good amount of enrichment could be done, as well as raising registered retirement savings plan limits and a number of things along that line.

Mr. Williams: Certainly the thrust of your brief suggests that you are in support of a third option in your recommendation one--recognizing that you are opposed to mandating that option. I just wanted to be quite clear that if there is an element of compulsion involved, it would be through the private sector plans, where you see an element of flexibility that you feel would be

suitable, given the fact that so many of your clientele have varied work situations and arrangements with their employees. As variable as those business concerns are, so should be their plans between themselves and their employees to suit the given situation. Is that essentially what you are after?

Mr. Gray: The very diversity of the sector suggests that the more flexibility you can institute into the system, the more it would be to their advantage.

Dr. Haehling Von Lanzenauer: Can I make one more point? The idea of certain types of plans requiring a substantially larger administrative task on the part of the employer than others, and given the difficulty of the system and the earlier mentioned lack of understanding of the system currently in place, it would be advisable to have a system in place, or a system suggested and supported, which simplifies the task for the employer. I am thinking specifically of dealing with an actuary, among others, which is no easy matter.

Most people would have a difficult time to differentiate between plans, let alone different funding methods and all the consequences thereof. Along those lines, it is the idea of the mentioned flexibility which we have in mind.

Mr. Williams: You recognize, staying in the particular area of private plans, that irrespective of the glaring deficiencies that exist in portability, vesting and things of this nature that you agree should be improved upon and I suppose legislated upon, I gather you are supportive of that approach.

I have one other question. I see from page 19 of your brief you have been led into the same situation that so many others have been in recent times. Somehow you seem to be suffering under the same illusion as others in recent times; that the provincial governments, who are presently borrowing from the federal authorities, are doing so without paying any interest--this is a new twist; I am not aware of any governments not being obligated to pay interest on the money they are borrowing--and also concluding that none of these principal amounts will be repaid.

Certain people, for reasons of political convenience, have suggested this is what is going to happen in the future, when the obligations come due. Again, I think it is simply a matter of political convenience that this has been suggested. There is no real, hard evidence that there has been any violation of provincial or federal agreements relative to repayments of interest and/or principal.

However, you seem to take the same position, which I think is an illusion at this time. I would appreciate your elaborating on your statement that this is a fact of life, when to my knowledge it is not so.

3 p.m.

Mr. Wietfeldt: We said it has been widely accepted. Obviously there is going to be no hard evidence until the payments

are actually made.

Mr. Chairman: Either way.

Mr. Wietfeldt: Exactly.

Mr. Williams: The statement that provincial governments have been allowed to borrow from the CPP massively without paying interest can be taken two ways, I guess. Do you mean there is no obligation to pay interest under the arrangements, or simply that they had not been paying interest that was due?

Mr. Wietfeldt: It was only a very low amount of interest, and it was not adjusted with inflation. I have not investigated the matter personally, but people who have done so have said, in meetings, that it was not being paid at all.

Mr. Williams: I gather that was not the strong part of your research because I think there was really no evidence that lends credibility to those general observations. I think that is a weakness in your presentation here, and you should look into that further before making a general observation of that nature. It is rather serious.

Mr. Wietfeldt: You have evidence, then, that the interest has been paid according to the agreements (inaudible) per cent?

Mr. Williams: I can speak only for our own province. It has been stated here, to questioning from other members of the committee who thought otherwise, that in fact the province is under no default in any agreements it has with the federal authorities on borrowings from CPP; and that any payments of interest that come due--no, the interest payments don't even start to become due until later this year, or next year.

Mr. Chairman: Mr. Williams, I think you have to distinguish between whether the debt is accruing or not--I don't think anyone is denying that--and whether or not repayment has been made.

Mr. Williams: No principal comes due yet for some period of time.

Mr. Chairman: I don't think that is really a matter for debate.

Mr. Williams: No, but I think the statement implies otherwise, that is all. I just want to set the record straight.

Mr. Wietfeldt: We have not done independent research on that. We have been at meetings and we have heard competent actuaries discuss the matter and shake their heads at the problem as they saw it. I make no pretensions to having done an individual investigation.

Mr. Chairman: I suggested to the Treasurer (Mr. F. S. Miller) that he have a gala affair in which he writes a cheque for the full amount and then turns around and borrows the same amount

that same evening. Then there will be complete repayment and we will just borrow it again.

Mr. Riddell: Some members on this committee shake their heads too, Richard, I can assure you of that. Don't let them bamboozle you.

Mr. Williams: I just wanted to set the record straight.

Mr. Riddell: Just recognize what side of the fence they are sitting on.

Mr. Williams: I just want to set the record straight before Mr. Riddell asks you to pursue the illusion that has been stated.

Mr. Riddell: You set your own record straight.

Mr. Williams: You can see it is a bone of contention in this committee.

Mr. Chairman: Mr. Williams, do you have another question?

Mr. Williams: No. I was just getting off a comment that I knew was coming.

Mr. McClellan: I have to admit to being confused by the examples you have used. Perhaps when I have a judgement of the full document it will become clear. I appreciate the study you have done on the coverage question; I think that is genuinely helpful, but I don't reach quite the same conclusions you do.

One of the things that disturbs me, and perhaps I just don't understand it properly, is the gist of your optimism about the adequacy of existing arrangements to provide retirement income as stated on page 12. You say your survey shows that the combination of public plans at the current level, together with either a company plan, or a personal RRSP savings, or equity accumulation or part-time contingency employment, can provide adequate and even generous retirement levels.

The difficulty I have from that are the last two words. I interpret those, from the body of your text, as meaning one of the options is that the retiree can sell his house. The second option is the the retiree cannot retire but rather continue working. In either of those two contingencies, I would have to ask what kind of solution that is. In view of your low coverage figures, how many people you expect to have to deal with their retirement years by having either to sell their house and live, God knows where. Secondly, how many people do you anticipate will have to continue to work in order to have "retirement income"?

Mr. Wietfeldt: Dr. Von Lanzenauer may have other things to say. We have only summarized the study for you and we've noted those qualifications about that last level, but you are missing out on two or three levels in between and that is the other "ors." We are saying our analysis has shown, as in this particular example, that any one of the various levels and any of the vehicles in the

various levels is sufficient, used, of course, in moderate but still in substantial amounts.

Mr. McClellan: Without wanting to interrupt you, one of the things that was missing for me was a projection of annual savings required through either RRSPs or company plans. Those are the two that were--

Dr. Haehling Von Lanzenauer: Let me go to the immediate question. It's certainly age and income dependent, but a five per cent contribution through one's working career--and not necessarily starting at age 18, as has been done in other studies--certainly provides for an adequate retirement income in additon to the public plans at age 85; adequate being measured by personal--

Mr. Mackenzie: What age did you say?

Dr. Haehling Von Lanzenauer: At age 65. I am sorry. Apologies. In addition to the public plans, five per cent would certainly do the trick.

Let me just go back to your original question. I think we should not forget that prior to 1957 the retirement income provision by continued employment or any kind or form of saving was a prevalent form of incoming planning. The position we have taken here is that there are various layers, and they are the more formalized and recognized in tax incentive retirement income schemes in addition to others. If an individual decides to plan for his or her retirement using capital accumulation in whatever form, or possibly continued employment ought to be recognized as one possibility--if it's consistent with his or her lifestyle, I think it's clearly one viable form.

Whether this has generally been taken as socially acceptable, I think may be a different matter. We certainly would take the position given that the framework and the system in existence in Canada that levels one, two and three--the public plan, the employer-sponsored plan and the personal tax sheltered and tax incentive plans--are more desirable plans for retirement planning rather than the latter alternatives. Nevertheless, for some people in certain age groups, say 50-plus, this represents a conditional problem. I think they have to rely on those forms because they didn't have the opportunity long enough to participate in the other plans for whatever reason.

Mr. McClellan: All right, it's helpful. At least I think I understand your proposals more adequately. One of my problems remains that when you are talking about a five per cent contribution rate you are arguing that the employee should bear the full burden of the five per cent.

Dr. Haehling Von Lanzenauer: No. I don't think we are arguing that. Let me step back. Most of the studies consider the pension provision in terms of coverage, membership in a plan, and I think this is totally inadequate. The fact that somebody is a member in the plan, the fact that one hasn't RRSPs, doesn't mean anything. If you don't contribute to it, it doesn't do anything for retirement. I think the only thing which matters is what Mr.

Wietfeldt calls the yield which any retirement income will eventually provide. The five per cent I am mentioning is not necessarily implied as being the burden or is being carried by the employee alone. Quite to the contrary, I think arrangements could be made and in the independent business sectors I have observed most of these so-called group registered retirement savings plans are being shared by the employer and the employee jointly; in many instances, to a larger proportion by the employer.

3:10 p.m.

Mr. McClellan: I will accept your figures for the 25 per cent who are covered, but the 75 per cent who are not covered are not covered.

Dr. Haehling Von Lanzenauer: They are either covered by an employer sponsored plan, a typical money purchase plan or defined benefit plan, or are alternatively covered by an RRSP, through which their employer makes contributions. This is a responsibility the employer takes on behalf of his employees, and this has frequently been overlooked.

Mr. McClellan: I am counting them all up, using your figures for employees' coverage of RRPPs and RRSPs, et cetera, from your table on page eight, and we still get only 25 per cent of the work force in your separate coverage, which leaves the remaining 75 per cent with no proposal as to how to cover that group except options three and four which, again, are either sell your house or keep your nose to the grindstone after age 65.

Dr. Haehling Von Lanzenauer: The 25 per cent you are referring to on page eight, right?

Mr. McClellan: Yes.

Dr. Haehling Von Lanzenauer: That does not include individual RRSPs being utilized by employers or employees. As a matter of fact, based on our somewhat limited result, about 50 per cent of all employees carry a personal RRSP. I do not think we can conclude that if they are not in the 25 per cent covered by employer sponsored plans they are not covered at all. If they are not, they frequently have a personal RRSP which should be mentioned, and should be recognized specifically if the employer contributes to that plan which is, in many instances, the case.

Mr. Mackenzie: Can you verify that 50 per cent figure?

Dr. Haehling Von Lanzenauer: We have it in the detailed study. It is based on the statistics we have collected.

Mr. Mackenzie: One of the things that would bother me on that is the fact that 55 per cent or 54 per cent of all Canadians on retirement qualify for guaranteed annual income system or guaranteed income supplement because they simply do not have adequate pensions.

There are some people who have not picked that Gains and GIS up that are qualified which would add to that, although it may be a

very small percentage. Certainly, there are people just over it, because I have them coming into my constituency office now, who do not qualify for a Gains cheque, who are in trouble pension-wise. I do not know what the figure is but I suspect we are looking at a figure somewhere over 60 per cent.

Dr. Haehling Von Lanzenauer: I would like to point out here that I am not talking about the adequacy of the retirement income for the current elderly. The study was done on a prospective basis for those currently in the work force. That was the position taken. Is the system in place capable of providing retirement income if members of society are willing to do so?

Those members you are talking about are probably in the age group 60 to 70, and the RRSP did not start until 1957 on a limited scale. There was no hysteria about retirement income planning. Nobody talked about it. Nobody had the incentive to start them. If you became alerted to this in the last five or 10 years since it became a hot topic and you began to start planning that certainly was too late. The people you are referring to would primarily be the result of a transitional problem, not the fault of the existing system.

Mr. Mackenzie: There are some in the existing system with pensions up to $1,000 a month who are finding that within two or three years it is not going to be anywhere near adequate and they are feeling the pinch right now.

Dr. Haehling Von Lanzenauer: I do not have the evidence for these specific instances.

Mr. Mackenzie: Pensions that high are relatively recent in an industrial city like mine, I can tell you.

Dr. Haehling Von Lanzenauer: Nevertheless, the point is whether we tighten the belt now, or later. If you are not willing, during your active years of employment, to prepare for retirement in whatever form, jointly with the employer or individually, it is to be expected. If everything has been consumed now, then you just simply rely on the public plan, which is not adequate by any standard.

Mr. Chairman: That would still tend to improve the consumption, would it not?

Dr. Haehling Von Lanzenauer: It would be--

Mr. Chairman: That is still consumption. It is just that it is being financed in a different way. You said they were relying on the public system.

If I may just interject here for a moment, the thrust of your presentation as I understand it was that the system in place can accommodate adequate retirement income, not without saying that there shouldn't be some reform in terms of vesting and items like that, some adjustments. It strikes me that implicit in what you say is that the individual will make use of the mechanisms that are there in the system that's in place and therefore provide at the

age of 65 for his retirement. We still have the philosophy of whether or not the individual will take advantage of it.

While the choice is there, he may very well not take advantage of it and then you still have a public system that has to come into play in order to ensure adequate retirement. How do you get around that without mandating?

Dr. Haehling Von Lanzenauer: I fully agree with you, Mr. Chairman. There are two positions. When we say the current system is capable, what we really mean is it has to be maintained and updated. It implies that, for example, the RRSP contribution should be indexed and not only necessarily indexed to the rate of inflation, possibly indexed maybe to the productivity of the economy. Secondly, maybe any kind of indexing--

Mr. Chairman: The index is negative then.

Dr. Haehling Von Lanzenauer: Hopefully not in the long haul. Secondly, there are questions of when it has been indexed. If one looks back, the RRSPs have been increased twice in 24 years of existence. There are significant implications of that one. This is position number one, that we don't recommend a major overhaul, we mean the current system is capable, provided it is being updated and kept in pace with the other developments in our economy and society.

The second thing, clearly, is how do we make people use it and I think that's really a challenge. Our position is it would be desirable for a nation and society such as ours here to provide and find vehicles, innovative vehicles, to induce the use of the existing system in a free society. I realize this is no easy task but I would maintain this is a position at least worthwhile to be contemplated and clearly there are possibilities around the corner.

One is simply the fact of a tax sheltered system. Look at the RRSPs. They have billions of dollars accumulated. As a result, on a voluntary basis, I am sure there are forms and vehicles which allow us, maybe through some form of moral suasion or additional legislation, to make use of the RRSP more effectively.

Let me reiterate, based on our data--these are the data which go back to the special Revenue Canada statistics; unfortunately they are outdated, 1976--the percentage participation in terms of contributions that year to RRSPs nationwide was 16 per cent, while it was 60 per cent in the independent business sector, combined of employers and employees. This tells me that if there is no other system in place for whatever reason, that the employer can afford it or it is a joint agreement between employer and employee that they work out their own arrangement, that they take advantage of a facility which is around. Along those lines, I would reiterate the recent federal budget position of, for example, not making the contribution any longer tax deductible, is working against a well established, well utilized system specifically for one sector of our economy.

Mr. Chairman: I can't help but agree with you on that. I see a lot of that budget is contrary to good sound public policy.

3:20 p.m.

Mr. Gray: If you chose to be a complete cynic, you might view the current federal budget as an overt attempt to reduce the flexibility of the private system to the point where it won't work, and subsequently to require mandatory imposition of an expansion of the CPP at the federal level.

Dr. Haehling Von Lanzenauer: Specifically, if I may add to this, Brien, for the long-established source of retirement income via equity buildup, primarily, of course, in the hands of an employer, through the doing away with income averaging annuity contracts. It is a total wipeout of a well established and long recognized source of retirement income planning.

Mr. Chairman: Mr. McClellan, I interrupted you. I am sorry. You are more of an expert on Machiavelli than I am. Maybe you can--

Mr. McClellan: Why don't you interrupt Mr. Williams from time to time?

I was curious about your section on vesting. On page 23, you say 39 per cent of the respondents said the minimum should be two years vesting and 53 per cent favoured more than two years. Is this of your total sample?

Mr. Gray: Of those who replied to the survey.

Mr. Wietfeldt: Of those who said that there should be a minimum vesting requirement. Eighteen or so per cent said no.

Mr. McClellan: So what you are counting there are the respondents?

Mr. Gray: Of those who answered yes to the vesting question, 53 per cent said it should be more than two years.

Mr. McClellan: What I am curious to know is how many of them actually have plans at all?

Dr. Haehling Von Lanzenauer: I don't have the numbers with me, but of those who preferred some (inaudible) service or age, 81 per cent found it favourable to have some vesting rule--

Mr. McClellan: That is 81 per cent of the total respondents?

Dr. Haehling Von Lanzenauer: Of the total respondents, which probably implies that 25 per cent or so had a registered pension plan.

Mr. McClellan: Frankly, I would be more impressed with the response with respect to ideal vesting provisions if the employer-respondent actually had a plan in force.

Dr. Haehling Von Lanzenauer: But again, let me reiterate,

in many instances the questionnaire was set up in such a fashion that we went by the classical definition of a registered pension plan and the percentage refers to that number. An employer who makes a contribution on behalf of his employee to an RRSP makes a contribution to his retirement income planning, which is fully and immediately vested. That has not been (inaudible). I think this attitude question we sampled is reflected, or the percentage we see here, is reflected in their actual behaviour.

Mr. McClellan: I suppose in the gratuitous comment department, our committee is notorious for making gratuitous comments. Considering the concern of your respondents with respect to a desire to reward the loyalty and continued commitment of long-service employees, it remains beyond me how the small business community expects to even attract loyal and long-service employees when it continues to argue so vociferously and so elaborately against modern social security measures.

Mr. Gray: I think one of the real strengths of small business is its imagination and use of incentives and other kinds of vehicles to compete against the other players in the market for employees. I will give you a spot example. One of our members went before the Conservative task force on the recent federal budget and complained that the removal of the use of deferred profit sharing plans, IAACs and the like, made them totally uncompetitive in grabbing off Bell Canada employees, which they were able to do with profit sharing plans and other forms of enticement.

Now that the budget has brought in measures that make that virtually impossible to use, they are very concerned about their ability to recruit good staff. Now perhaps I am talking on a high technology end of the--

Mr. McClellan: You are simply reinforcing my argument. You are talking about companies who have made a plan available to their employees.

Mr. Gray: That's right.

Mr. McClellan: Your own statistics indicate that only one per cent of employees in your sector are covered by deferred profit sharing plans.

Mr. Gray: You chose to take deferred profit sharing plans. You can take any other number of vehicles, whether you are talking about IAACs, whether you are talking about giving share options or whether you are talking about participation in the profits, there are any number of ways of encouraging people to come in. The fact that you may or may not have an added level of coverage in your pension scheme may be one way one firm goes after getting that employee to come and work for him, but there are any other number of ways of getting him to come as well.

One of the problems in this discussion is that we tend to broad-brush everything to say that a person who makes the free choice in his lifestyle to consume today ought to get the same kind of coverage as the person who similarly makes a free choice to save for his retirement. I do not know whether that is necessarily the

way we should be looking at it.

Mr. Chairman: Obviously a philosophical clash.

Are there any further questions? If not, I want to thank you gentlemen for taking the time to come here today. We welcome your presentation. It has certainly been stimulating.

Mr. Williams: Mr. Chairman, when will Dr. Haehling Von Lanzenauer's study be available in its completed form?

Mr. Wietfeldt: It has not been exactly decided. We have a few corrections noted, we have to agree on some corrections; there is a bibliography to be prepared and a few matters like that. It should not be a very long time.

Mr. Williams: Will you be able to make a copy available to the committee?

Mr. Wietfeldt: Of course, we would be sending the committee a copy.

YOUNG WOMEN'S CHRISTIAN ASSOCIATION OF METROPOLITAN TORONTO

Mr. Chairman: The next delegation is the Young Women's Christian Association of Metropolitan Toronto, Leona Gislason. If you would not mind coming forward and then you can correct my pronunciation. I gather you are accompanied by Judy Campbell.

Ms. Gislason: Mr. Chairman and committee members, my name is Leona Gislason. I have just completed a term as a board member and chairperson of the social action committee at the YWCA. I have with me Judy Campbell, who is staff resource to the social action committee. My presentation will take about 15 minutes.

The first part will outline the broad principles upon which we would like to see pension reform based. Then we will respond briefly to some of the recommendations of the royal commission and conclude by summarizing our recommendations for pension reform.

We do not appear before you as experts in the technicalities of pension coverage, but we appear here as advocates on behalf of women, the single largest group victimized by current pension systems. We note that the interim report from this committee does not address all the issues that we view as important to women. So our appearance before the committee today is timely.

The YWCA of Metropolitan Toronto, as an organization of more than 700 members and many additional program participants, all of whom are women, has a special concern that pension reform be shaped to accommodate the particular conditions of women. In 1976, we submitted a brief to the Royal Commission on the Status of Pensions in Ontario that proposed that pension reform be based on the principle of equity for women.

Underlying this principle are these assumptions: Marriage is a legal, social and economic partnership with married partners entitled to share in the assets acquired by either or both of them

during marriage; that the spouse who remains at home to perform child-rearing tasks is just as much a producer of goods and services as is the spouse who works for pay; and that the spouse who provides such services should be able to participate in the Canada pension plan and have benefits in his or her own right.

We continue to assert that if women are ever to have equal access with men to adequate pensions, we must abandon the assumptions underlying our current pension systems that full-time participants in the labour force--usually men--will through the pension system be able to provide adequate retirement income for their dependants. This assumption has never reflected the real world of women, and the consequence of this assumption has been increasing poverty for increasing numbers of elderly women.

3:30 p.m.

More and more women, compared with men, are totally dependent on the old age security which provides an income below the poverty line and the means-tested guaranteed income supplement and Gains programs. Private pension systems have served women poorly indeed. While 50 per cent of male employees have access to employer-sponsored pension plans, only 31 per cent of female employees do. Very few women who have access to these plans actually obtain benefits because of vesting and portability limitations. Only 44.1 per cent of employer-sponsored plans provid survivors benefits; most of these are government agencies and these are usually optional. Only 53 per cent of women from ages 20 to 64 contribute to the Canada pension plan, compared with 94 per cent of men. While 70 per cent of men are eligible for maximum CPP benefits, only 35 per cent of women achieve this.

The women's movement has, particularly since the 1960s, created an awareness among women of the value of their contribution to society as wives, mothers and homemakers. This is already reflected in family law reform. It has also awakened among women an awareness of how the male-oriented world of work has disadvantaged them in terms of accessibility, advancement, salaries and benefits. As these women enter the ranks of the elderly they will not accept their roles as poor widows, spinsters or divorcees with the equanimity of their mothers. For them, poverty in old age will bring a particular misery.

The statistics relating to elderly women and poverty highlight the urgency of pension reform. Not only is the proportion of elderly in Canada increasing from one in eleven today to a projected one in five in 50 years, but increasing numbers of these elderly will be women. Already, more than half of Canadians over 65 and three fifths of Canadians over 75 are women. More than 60 per cent of women over 65, compared with 25 per cent of men, are not dependent on a spouse; they are single, divorced or widowed. Of these, almost 60 per cent live below the poverty line. Two thirds of women over 75 live in grave poverty.

Given that women live longer than men and are unlikely to live out their years as a dependent; given that increasing divorce rates will result in increasing numbers of former wives who are neither participants in the work force nor dependents of

participants; and given the barriers that women face to achieving adequate pensions through paid employment, the necessity for pension reform based on the assumptions defined in our brief to the royal commission becomes clear. The right of each person to acquire pension credits in his or her own right rather than as a dependant must guide pension reform.

Regretfully, the royal commission points to the increasing participation rate of women in paid employment as the basis for a solution to the problem of providing adequate pension coverage for women. Our view is not as optimistic. Rising unemployment rates, entrenched discrimination in employment practices, and developing microtechnologies will continue to affect employment opportunities for women for decades to come. Some women will continue to assert their right to be fully employed in child-rearing tasks as well. In the year 2000 there could still be as many as a million full-time Canadian homemakers between the ages of 20 to 64.

These women, too, are unlikely to end their years as dependants of a full-time wage earner with adequate pension coverage or survivors benefits. Moreover, of those women in the work force, only about half work full-time, and employer-sponsored plans rarely cover part-time workers. To incorporate the value of the goods and services of the spouse remaining at home to perform child-rearing tasks then,is an important aspect of pension reform, and our recommendations will reflect this.

Our response to the royal commission report: We recommended in our brief to the royal commission that Ontario support without delay the amendment to the CPP that would exclude from the pension calculation the years spent in child-rearing tasks. We are gratified that the royal commission concurs. We also recommended the splitting between spouses of pension credits accumulated during marriage. We note the royal commission opposes this even in the event of divorce. The royal commission dismisses the issue of pension for homemakers on the basis of the rising participation rate of women in employment. For the reasons given above, we are of the opinion that the inclusion of the value of goods and services related to child-rearing tasks is essential to pension reform.

Its recommendations regarding PURS contain many features attractive to women--coverage of part-time workers, immediate vesting and locking-in, portability, unisex mortality tables, mandatory survivors benefits.

The fact that PURS could take 47 years to mature poses a serious problem for women in view of the urgency of pension reform. The YWCA believes that the priority in pension reform must be expansion of the Canada pension plan both in levels of benefits and in coverage. Only such expansion will meet the financial needs of older women in the future. A reformed private pension system would not. A reformed private pension system would, because it applies only to women in the work force, provide at best supplementary retirement income to select groups of women.

For those who would argue that the expansion of the CPP would remove from the individual the option of how and to what extent one

would choose to acquire pension benefits, we would point out that for poor elderly women the issue is not one of choice, but of the right to adequate pension benefits. The CPP is the only vehicle available for providing all women an individual right to pension benefits.

Our recommendations for pension reform are as follows: First, we recommend that the OAS be increased immediately to a level that would bring the income of married and single elderly individuals above the poverty line and that the OAS be adjusted to reflect need through the tax system. We note that 51 per cent of the elderly take advantage of the GIS. Many thousands of individuals are on welfare for the first time when they become old. We oppose the needs-tested GIS and Gains programs.

We recommend that the government of Ontario vigorously pursue mandatory affirmative action programs, contract compliance measures, job re-entry programs and non-traditional job training programs for women. Equal pay for work of equal value must be incorporated into the Employment Standards Act immediately. We recognize that one of the causes of inadequate pensions for women is their unequal status in relation to paid employment.

We recommend the adoption of the drop-out provision to the CPP allowing exemption of the time spent at home with children under seven from calculation for benefits.

We recommend that the drop-out provision be extended to cover the pregnancy leave of absence or, alternatively, that the CPP credits be paid for by government during this period.

We recommend that in addition to a child-care drop-out provision, there be a dependant-care drop-out provision added to CPP, whereby the years caring for severely disabled relatives or spouses would be excluded from calculation for benefits.

We recommend the inclusion of homemakers who do not participate in the paid work force in the CPP. We, however, reject the concept of voluntary contributions. Only families with higher levels of income could afford to make contributions. Moreover, this reinforces the dependence of a woman upon her spouse. European experience has shown that only limited numbers of families would exercise this option.

So we recommend that homemakers with children under seven who do not re-enter the work force participate in the CPP. We recommend that there be provision for independent contribution to CPP by other homemakers with older or no children. But in this case women are contributing their unpaid services more to their husbands' than to society's benefit. So husbands or spouses of these homemakers should then bear the brunt of making contributions, but we do not feel this should be left optional. One suggestion that we find interesting is that to enforce contributions in a spouse's name, individuals wanting to claim an income tax deduction for a dependent spouse could be required to show proof of having made CPP contributions in his or her name, thus translating a tax benefit into pension benefits for the spouse.

For purposes of computation of CPP contributions, work in the home could be given the dollar value of half the average industrial wage, presently $8,200, which is slightly above the national minimum wage and is fairly close to the cost of replacing the services of the homemaker by a domestic worker or daycare facility.

We recommend that credit-splitting of CPP credits accumulated during marriage should be mandatory at the point of marriage dissolution. Secondly, credit-splitting of CPP credit accumulated during marriage should be mandatory on the day the younger of the couple reaches 65. In reply to the argument that the latter would result in an inadequate level for both parties, if inclusion of homemakers in CPP has allowed credit contributions in the woman's name, then there would be adequate benefits for both.

We recommend that it be mandatory for CPP to provide survivor income benefits and that this level be at least 80 per cent of the benefit level of the plan member.

3:40 p.m.

We recommend that an adequate minimum benefit level of 50 per cent of half of the average industrial wage be established in an expanded CPP system. This is premised on the involvement of homemakers. We would recommend a benefit formula which would be fair to low-income workers because most low income workers are women. At this point I want indicate that it appears women are paying over 30 per cent of the credits to CPP and are getting only 20 per cent of the benefits. In fact, women are subsidizing the CPP system.

To assure fairness to low income workers, the Quebec government's task force, for example, proposed that the QPP equal 50 per cent of the portion of the workers' earnings below half of the average industrial wage, plus 25 per cent of their earnings above that level up to the average wage. With such a benefit formula, we can ensure that women earn adequate benefits despite relatively low earnings.

With regard to the private pension plans, the YWCA wants the private pension plan system reformed primarily to stop it from working unfairly against women's financial interests as the existing system now does. In 1978 only nine per cent of all female employees as compared to 19 per cent of male employees met the requirements of age 45 and 10 years of service. These factors make it imperative for women that vesting and portability be improved in private plans. Few part-time workers have access to coverage in private pension plans. We are gratified that the Treasurer of Ontario has recently acknowledged that coverage should be expanded to include these workers on a prorated basis in private plans.

Finally, we recommend the Family Law Reform Act be amended to include all pensions as a family asset to be split on marriage breakdown. We also made this recommendation to the royal commission in 1976. That is my submission.

Mr. Cnairman: Thank you, Ms. Gislason. Maybe I could lead off. If there is to be reform in the Canada Pension Plan, there have been suggestions of enrichment in terms of the present benefits, as well as the extension of the coverage to homemakers and so forth. Bearing in mind that there may be a limitation in terms of costs to implement this reform, what would your preference be, to expand the coverage as a priority and then get on to enrichment in terms of benefits or would you work in the other direction? This is a hypothetical question.

Ms. Gislason: My immediate answer, and perhaps Judy could back me up or dispute that, would be that rather than increasing benefits, the extent of coverage would be our first priority. I think it is essential that homemakers get covered. I think a lot of our other recommendations are premised on this. For example, the 50 per cent minimum of half the industrial wage, if it were to cover all women, would be premised on the fact that homemakers are included as earning half the average industrial wage. Then under our benefit formula that would give them that replacement. My immediate response would be that should be the priority.

Mr. Chairman: Extend the coverage to include those persons who are now not covered and who you suggested should be, and bring those up to the standard that the rest of the people enjoy, and then presumably go from there.

Ms. Gislason: I would say that. I do not know that it would not imply enrichment, but it would imply increased costs.

Mr. Chairman: Any questions from the members?

Mr. Van Horne: Your presentation is good. I am not sure it addresses itself to our interim report, and I am wondering if you have any further comments or observations, aside from what you have obviously taken a lot of time to prepare, about the report that was issued back in the fall by this committee and particularly the 18 recommendations in that report. As I have read the brief and listened to you today, you seem to address the first two recommendations that we have as they relate to improving guaranteed income supplements and Gains.

Ms. Gislason: We do not say that, but we address it, yes.

Mr. Van Horne: The hint is there. I am wondering, Mr. Chairman, if they would have any comments about the interim report. Was it close to the mark in your view?

Ms. Gislason: I would say the reason we didn't spend a lot of time with that is the priority we give to CPP expansion. We really feel that since your interim report didn't address that, and I am sure your final report will, in terms of priorities our attention wouldn't be focused on that. Now, around PURS and recommendations, there again you haven't made precise recommendations, but I think that kind of plan would benefit women. I am not saying that specific plan would, but I think it contains elements within the employer-sponsored realm that would be of benefit to women.

I think you were in your report addressing another alternative to PURS that would involve a kind of family of employers that could improve portability. You talk about the insurance field as an example, and I might point out at this time that the United Way agencies involved or created a portability provision within the United Way agencies, and they employ a lot of women. They found that women don't seem to stay within United Way agencies, so the portability question wasn't addressed. I would think that something more like PURS would be better than looking at groups of employers getting together to provide portability provisions.

Mr. McClellan: My colleague and I in the New Democratic Party basically accept the premise you have presented that the solution lies in enriching public sector plans. We basically are trying to grapple with precisely the same problem you have identified, that is, the plight of women, the excluded position of women in the pension picture. After a lot of thought and some revision and some revision of revision, we have come to the conclusion we should be advocating more of a reliance on old age security than most of the proponents of public sector reform are advocating. You have indicated in your first point that you want an increase in old age security without being specific as to the level. Is there some reason why you left that--

Ms. Gislason: I think the reason we left it in general terms was, as I said at the beginning, we are speaking in terms of broad principles. We don't have the resources to work out the economics of it and I think if we could at least get people to address principles and use their resources to work out details, we have accomplished as much as we can accomplish, given our resources.

Mr. McClellan: When you say in point one that the old age security should be adjusted to reflect need through the tax system, I assume you are talking about a tax-back provision rather than the position of some kind of means testing. I assume you want to keep old age security a universal flat-rate program.

Ms. Gislason: Right.

Mr. McClellan: You have obviously borrowed or relied at least on the work done by Louise Delude.

Ms. Gislason: Right.

Mr. McClellan: What mechanism do you propose to collect contributions for homeworkers who are under the CPP?

Ms. Gislason: You mean the source of the contributions?

Mr. McClellan: Louise has suggested the husband should pay.

Ms. Gislason: You mean for those who have children over seven because, for those with children under seven, we would propose they participate.

Mr. McClellan: For voluntary homeworkers.

Ms. Gislason: But for those who (inaudible) and service, as we say, their spouses, we would suspect that would occur through the tax system.

Ms. Campbell: I think that we are supporting Louise Delude's suggestion that the husband, in order to take advantage of the tax benefit of a dependent spouse, would have to show proof of having submitted a CPP contribution in her name for homemakers over seven. In our brief on page 5, that's where--

Mr. McClellan: I wasn't clear what mechanism you were proposing.

We basically seem to be heading towards a recommendation that old age security should be raised to a level of 40 per cent of the industrial wage in order to give a base adequate coverage to low-income population, whether women or whoever, on the assumption it is probably going to be a long time before the structural inequities of the economy are resolved. As long as you are relying in any kind of a major way on occupational plans, even in the public sector, it would simply duplicate the distortions and inequities of the labour market. Unless it gets to be really complicated to adjust the occupational-based plans even in the public sector to try to compensate for all the inequities, you end up with potentially a real Rube Goldberg set of machinery to try to make the compensations. Our thinking is that we should build on old age security, which has the advantage of being redistributed right off the bat and toughen up, as you suggest, the tax--

3:50 p.m.

Ms. Gislason: I think we also feel, though, it is important for women that they achieve recognition through their income as elderly for their contribution to society, and OAS does not do that in the way a pension does. I think there is a psychological aspect to that too and more and more women, as they become "liberated," I think will see that as important for them. So the demographics of women 20 years from now are very different from the demographics of women now in terms of psychological makeup.

Mr. Mackenzie: In other words, you might argue with us over percentages, but you see a need to improve both the OAS and the CPP?

Ms. Gislason: Yes, and certainly in the immediate future. Obviously it is a crisis.

Mr. Williams: I was just wondering whether the 80 per cent factor in your recommendation 7 was arrived at on any analytical analysis, or is it a figure you have arbitrarily picked out of the air?

Ms. Gislaon: I wish it were. There is some debate around this and this was a sort of compromise at a higher level. I think a majority of our board members and so on can also think in terms of two thirds, because again if you have a spouse getting 100 and the survivor 50 and you divide that, you get more like 75 as a benefit

level. I won't provide any great analysis of why it should be 80, but it certainly should be enough to provide a dignified standard of living for a single person. I know people say it is as low as 60. We happen to think it is probably more than 60.

Mr. Van Horne: Mr. Chairman, whether this is a good question to end on or not, I don't know, but you represent, you say, 700 members. In your view which group is the best spokesperson for the women in Ontario? Is there any one single body that is the best?

Ms. Gislason: An umbrella organization, you mean?

Mr. Van Horne: Yes.

Ms. Gislason: Well, we work very closely with the National Action Committee on the Status of Women. We are members of the national action xommittee. The advisory council's research is excellent. We support a lot of work coming out of that. We think the Ontario Status of Women Council has made some good recommendations. We don't think they go far enough, but we don't know why. So I think there is a lot of accord among women's organizations and some just have variations or whatever. But the basic principles, I think, are quite universally accepted among women of the groups I have mentioned. There might be others who would oppose everything we say.

Mr. Chairman: That is a good political answer, isn't it?

Mr. Van Horne: It is a good answer, political or otherwise.

Mr. Chairman: I think you are looking for maybe a single authority, but it is hard to--

Mr. Van Horne: It's like asking your wife where she wants to put the chesterfield.

Ms. Gislason: Not quite. I think women have come together on a very broad front. I'm sorry I cannot be more precise than that.

Mr. Chairman: Thank you very much. It was a very stimulating brief and we appreciate you coming before us today.

The committee adjourned at 3:54 p.m.

SELECT COMMITTEE ON PENSIONS

INSTITUTE OF CHARTERED ACCOUNTANTS OF ONTARIO

TUESDAY, JANUARY 26, 1982

Morning sitting

SELECT COMMITTEE ON PENSIONS

CHAIRMAN: Taylor, J. A. (Prince Edward-Lennox PC)
VICE-CHAIRMAN: Williams, J. (Oriole PC)
Brandt, A. S. (Sarnia PC)
Cousens, D. (York Centre PC)
Cureatz, S. L.; Deputy Speaker (Durham East PC)
Gillies, P. A. (Brantford PC)
Haggerty, R. (Erie L)
Jones, T. (Mississauga North PC)
Mackenzie, R. W. (Hamilton East NDP)
McClellan, R. A. (Bellwoods NDP)
Riddell, J. K. (Huron-Middlesex L)
Van Horne, R. G. (London North L)

Clerk: Arnott, D.

Researcher: O'Mara, Dr. J., Legislative Research Service

Consultant: Bentley, W., Superintendent of Pensions, Pension Commission of Ontario

Witnesses:
From the Institute of Chartered Accountants of Ontario:
Cockburn, D. J., Chairman, Special Committee on Ontario Pension Legislation
LaFlair, P. G., Director, Professional Services
Skinner, A., Second Vice-President

LEGISLATURE OF ONTARIO

SELECT COMMITTEE ON PENSIONS

Tuesday, January 26, 1982

The committee met at 10:13 a.m. in room No. 151.

INSTITUTE OF CHARTERED ACCOUNTANTS OF ONTARIO

Mr. Chairman: Gentlemen, we have with us this morning Mr. Skinner, who, I believe, is the chief spokesman and the second vice-president of the institute. Would you mind coming forward with your delegation, please? You can introduce the two others you have with you.

Mr. Skinner: Mr. Chairman and members of the select committee on pensions, I would like introduce Donald J. Cockburn, to my immediate left, who is the chairman of the institute's special committee on pension legislation, and a partner of the CA firm, Clarkson Gordon and Company. On his left is Peter LaFlair, chartered accountant, director of professional services for the Institute of Chartered Accountants of Ontario, who has worked on our various pension committees. I am the second vice-president of the institute and a partner of the CA firm, MacGillivray and Company.

We thank you for your invitation to appear before you on behalf of the Institute of Chartered Accountants of Ontario. Our institute has about 15,000 members in Ontario, about half of whom are in practice as public accountants and auditors. Many of the other half of our members, who are involved in industry, education and government, et cetera, have interests in pension matters other than as auditors.

The background of our participation in this process of evolutionary change in pension planning and legislation could be summarized briefly as follows. In the mid-1970s, members of our institute sat on an ad hoc committee established with the encouragement of the Pension Commission of Ontario when the issue of audit of pension funds was being discussed. This committee also had representatives from trust companies, insurance companies, actuaries and legal, among others.

The royal commission was established on April 20, 1977, and the ad hoc committee was dissolved without reporting when the commission was created. At that point in time, the institute created a special committee on pensions to respond to the royal commission, as requested. The ICAO response to the royal commission, dated January 31, 1978, was a fairly lengthy document, and presumably was taken into account in the drafting. The Pension Commission of Ontario invited the institute to assist in this process by commenting upon proposed draft legislation and regulations. Mr. Cockburn will address the issues we feel to be most germane to our particular field of interest and to our professional expertise.

Mr. Cockburn: Our brief touches on two areas we believe to be pertinent to our area of expertise. One is the area of disclosure and the other is the area of audit requirements for pension plans in Ontario.

The royal commission made a number of recommendations in its recommendation 83 on the matter of disclosure of information to beneficiaries of pension plans. Subsequent to the issue of the royal commission report, regulations 23 and 24 were added to the Pension Benefits Act in 1981, and we have looked at those regulations. We consider they more than adequately responded to the royal commission's recommendations in this area. However, we noted that the regulations contemplate the reporting of this pension information at least every third year, whereas the royal commission had recommended that this information be reported to the beneficiaries under the pension plans on an annual basis. So we would recommend to your committee that consideration might be given to taking a look at regulations 23 and 24 with the possibility of requiring annual reporting of this information to plan members.

In the area of audit, the royal commission made two recommendations, 84 and 85, which touch on the audit of pension plans. Before we comment on those recommendations, we should point out that the Institute of Chartered Accountants of Ontario has been working with representatives from the Pension Commission of Ontario in the process of drafting proposed legislation that would respond to the royal commission's recommendations 84 and 85. We believe such proposed legislation is now drafted and, because of its importance, will be issued in draft form for comment, a process that we support and one that was followed in November 1981 for proposed regulations respecting pension benefits guarantee fund and the winding up of pension plans. Through working with the representatives of the Pension Commission of Ontario, as we have mentioned, we have participated in the process of drafting the proposed legislation, and we believe this proposed legislation responds to the concerns of the royal commission in this area.

We do have one comment we would like to add to this area, and that is the question of whether mandatory audit requirements for all pension plans in Ontario might not be somewhat onerous for the smaller pension plans. We suggest that consideration might be given to exempting from such mandatory audit requirement all plans with less than a prescribed number of members, possibly 100, possibly some lesser figure. This exemption, of course, would be subject to approval by the pension commission and possibly a majority of the plan members if that were considered to be viable. Based on the latest figures I have seen on statistics for pension plans in Ontario, this would eliminate the need for an annual audit requirement for about 78 per cent of the plans in Ontario, but only about six per cent of the plan membership.

10:20 a.m.

Mr. Mackenzie: Can I interrupt for just a second there? How can you make a case on one hand for the annual audit and then, because it happens to be a smaller group of 100 or less employees, make the argument that they do not need to know where they stand annually. The logic of that bothers me a bit.

Mr. Cockburn: Our feeling was that there are a number of pension plans that have maybe 10, 15 or 20 employees in them. We were concerned that perhaps the cost of auditing those plans on an

annual basis might outweigh any benefits the plan members might achieve through the audit. Essentially, the cost of an audit of a pension plan would of course vary with the size of the pension plan, but not necessarily directly. The cost of an audit of a pension of, say, 15 or 20 members might be somewhat onerous considering the size of the fund that had been accumulated.

Mr. Mackenzie: I don't know the mechanics of speeding it up, but if I were an employee in a plant that had 50 people and I did not get an audit and the guy in a plant next door of 200 did, I would sure be a little bit uptight.

Mr. Chairman: But you might be more uptight if it impacted too heavily on the fund in a financial sense. I suppose the larger funds are now audited annually anyway, aren't they?

Mr. Cockburn: The very large ones certainly are, but there is that in-between area between the very large ones and the not-so-large ones that we don't really have very information about, because there is no mandatory audit requirement now in the legislation. The only way you would know which ones were audited is if these pension plan financial statements were made public or somebody told you a particular pension plan was audited.

Mr. Haggerty: Do you find any difficulties in this area under the present auditing practices? If you don't check these pensions out now, have you noticed any difficulties in this area?

Mr. Cockburn: Right now, pension plans in Ontario don't require audit. The only ones that are audited are those where the plan sponsor, the employer or, if there are trustees, the board of trustees, the retirement board, retirement committee or whatever, asked for an audit to be carried out. Otherwise those plans are not audited at all.

Mr. Mackenzie: Is there a degree to which you can conduct an audit or is it something--in other words, is there even a full impartial audit?

Mr. Cockburn: There isn't really a full impartial audit, a distinction between the two. An audit is an audit. I suppose one could carry out something less than an audit, such as a review of the financial statements, and issue what we call under our professional standards an accountant's comments that afford a lesser degree of credibility to the statements. Essentially, under the accountant's comments the accountant says he has carried out an inquiry of the people who prepared the financial statements and carried out some sort of limited review, but he has not done an audit and he can't express an opinion on the financial statements. It is better than nothing but not nearly as good as an audit.

Mr. Skinner: Perhaps there is another alternative. You point out quite rightly that there is a cost benefit and the committee's response to that was, perhaps the benefit in a very small plan does not justify the cost; perhaps you just should exempt it. Another way of dealing with that same problem would be to make the audit requirements less than annual for very small plans, which would give you some assurance at least that the thing is there in three years.

Mr. Mackenzie: I found it a little bit difficult that you were coming down--which I think is correct--on the disclosure or the audit on the one hand and then almost immediately reversing yourself when it was a circumscribed plan. The people are the same. Obviously, there are some problems in terms of--

Mr. Skinner.: Yes. If self-interest were foremost in our minds, we would shrug our shoulders and say: "That's great. Everybody should have an audit every year." But I really wonder whether that's appropriate, and the committee has addressed it with one solution. But it is just another aspect of the perpetual cost-benefit problem you people deal with all the time.

Mr. Cockburn: Our concern was on the cost-benefit aspects of the matter. We should point out that, in our participation in the drafting of this proposed legislation with representatives from the pension commission of Ontario, that commission doesn't share our views.

Mr. Haggerty: What are your views, then?

Mr. Bentley: Simply that they believe the audit should be done regardless of size.

Mr. Chairman: Of course, that is the ideal fail-safe--

Mr. Haggerty: What are your reasons for this? You must have some reasons for it.

Mr. Bentley: The reasons, I think, were set out by Mr. Mackenzie. If you are going to require an audit, it really shouldn't make any difference whether there's a pension plan covering 10 or 10,000 people; the same principles should apply. The commission is well aware of the cost factor involved in that, but it had to make a determination and, although this has not gone beyond a proposal at the present time, the commission is of the opinion that the audit should apply regardless of size for pension plans. It's as equitable for the people in a 10- or five-member plan as it is for members in the 500 or 5,000 plan. This is the current attitude of the commission.

As I say, we've only done the drafting, and we've worked very closely with Don's people in doing this. There are some other areas of disagreement over technicalities, but this was the principal divergence from the institute's opinion and our opinion.

Mr. Haggerty: In your particular field, have you had any breach of any existing pension contracts or defaults on them? Are there difficulties in this particular area?

Mr. Bentley: First of all, there is nothing in the legislation, and never has been anything in our legislation, that required an audit to be performed. The only two that have that requirement are Quebec and the federal Department of Insurance under the Pension Benefits Standards Act. Theirs is a limited audit. I think, Don, you might explain that theirs is a different approach to auditing from what the pension commission is looking at in that they are talking--maybe you should explain that, Don.

Mr. Cockburn: You're doing fine.

Mr. Bentley: You can explain it better than I can.

Mr. Mackenzie: I was a cheating a bit. My dad was a chartered accountant all his life, and I can recall him saying that there are not two different ways of doing it. There are degrees to which you do something but not two different ways. I just find your comments a bit funny.

Mr. Cockburn: Our comments, as we pointed out, were based solely on the cost-benefit concern, because the cost of an audit of a smaller plan is proportionately going to be a significant part of the assets of a pension fund. I suppose one could argue that the employer or the sponsor bears the ultimate cost of the audit. But the sponsor in many of these smaller plans is also a fairly small organization; so that cost could be a significant cost of doing business for that small organization.

Mr. Haggerty: Just following your trend of thought there, Bob: Suppose the province does venture to get into its provincial universal retirement system. The onus is put on the participating person, as a member and contributor to the plan, to see that, if it's put into a trust or investment, the investment is for his benefit. Now, if you don't have an audit, even in a small plan for 10 or 20 persons, that's putting quite an onus on that individual, saying, "It's your responsibility," without having the proper auditing done. If a person doesn't get that at the end of the year, who knows what the investment will end up being and what benefits there would be for that participant?

10:30 a.m.

Mr. Cockburn: That's a good point.

Mr. LaFlair: That would tie back to the annual reporting requirement. If they got information annually, they'd be able to ask the questions if they had access in some way.

Mr. Cockburn: There are, as Peter points out, also the disclosure requirements under the regulations of the Pension Benefits Act, and disclosure requirements place an onus on the sponsor to provide certain selected financial information to the plan members, such as what his position is in the plan; how much money has been accumulated to his credit in the plan; what his accrued benefits to date under the plan are; if the plan isn't fully funded, what steps have been taken to ensure that the plan will become fully funded--those sorts of things.

Those are all bits and pieces of information that are aimed at the individual himself and are, I think, of considerable interest to the individual and of considerable importance, because one could almost look at one's accumulated pension benefits as being one of the largest assets one accumulates during a lifetime--perhaps next to a house, but in many cases exceeding the cost of a house. So those disclosure requirements are important, and presumably those would also apply in the event that there was a PURS system.

One piece of the disclosure might be audited financial statements of the pension fund as a whole so that the members of the pension plan could see what the overall financial position of the plan is. There would be two elements to this area: the disclosure of the information peculiar to an employee, of great concern to him, and of audited financial statements of the plan as a whole, which let him know where he stands, what the overall financial position of the plan is, so he has both the microinformation and the macroinformation.

Mr. Gillies: Mr. Skinner, we recommended in our interim report in the fall that the government move towards--it was a very general recommendation, really--updating the disclosure requirements, the end being that the information would be available on a regular basis--we didn't quantify it--or upon request. Would you have felt more comfortable if we had been quite specific in requiring annual reporting?

Mr. Cockburn: Are you addressing this to me?

Mr. Gillies: Yes.

Mr. Cockburn: I'm Mr. Cockburn.

Mr. Gillies: Oh, I'm sorry.

Mr. Cockburn: Our recommendation is framed, I guess, that consideration should be given to having annual reporting. In answer to your question, we probably would have favoured being more specific in the select committee's report and suggesting annual reporting.

Mr. Skinner: With respect, though, I think we're not arguing with annual disclosure. We are just raising the issue that perhaps annual disclosure coupled with annual audit might be somewhat onerous in the cost-benefit way for extremely small plans.

Mr. Chairman: Do you have any idea of what, in dollar terms, the range might be? What are we talking about, and how onerous is it?

Mr. Cockburn: For auditing a pension fund?

Mr. Chairman: Yes. I'm thinking of the type of pension fund you feel would be adversely impacted upon in a financial sense if annual audits were mandated.

Mr Cockburn: We haven't carried out any studies in this area, so the response I would be giving you would be sort of--

Mr. Chairman: I'm not looking for something scientific. I just was curious.

Mr. Cockburn: I was going to say that it's not going to be scientific. I would say that the cost of an audit of a pension plan with more than 100 members probably starts off in the area of from $3,000 to $5,000 on an annual basis.

Mr. Gillies: If the plan had, say, 15 members it would obviously be higher per person.

Mr. Cockburn: Yes.

Mr. Gillies: I wonder if you could give us a little bit of--

Mr. Skinner: Yes. The problem is that in the range of 10 to 100 it might be the same $3,000 to $5,000 range, if that's the right number.

Mr. Cockburn: One of the difficulties in estimating audit costs is that the cost of the audit depends on the complexity of the plan.

Mr. Chairman: And the state of the records.

Mr. Cockburn: And the state of the records, yes. We shouldn't forget that. That's right.

Mr. Skinner: The quality of the administration is probably a bigger factor on the audit fee than the size of a plan, given that the range we are talking about for this discussion is between 10 and 100.

Mr. Chairman: You were interrupted, Mr. Cockburn, in your presentation. You haven't completed your submission, and we've been questioning you, maybe prematurely. I don't know, but--

Mr. Cockburn: No. I'm quite happy.

Mr. Chairman: If you want to, you can carry on with your brief, then we'll go back to the beginning and cover the full range.

Mr. Cockburn: We commented on a couple of other issues that were raised by the royal commission. One was the royal commission's objective of uniformity of pension legislation across the country. That's an objective that the select committee endorses, and, of course, we would like to add our endorsement of this objective, particularly in the disclosure and audit areas.

We don't think it's in the public interest that a plan member in one province get different information about his pension entitlements and different audited financial information from a member in another province. We think that the kinds of initiatives that have been taken by the Pension Commission of Ontario in the disclosure area and the audit area are the kinds of initiatives that probably should be taken across the country.

One other issue we wanted to comment on was a recommendation in the royal commission report in which the royal commission expressed the hope that either the Canadian Institute of Chartered Accountants or the Institute of Chartered Accountants of Ontario would be consulted by the Canadian Institute of Actuaries in developing a more meaningful and informative actuarial valuation balance sheet. And we would just like to comment that we would be happy to participate in this process if the Canadian Institute of

Actuaries so wishes. However, we'd like to point out that there are already lines of communication between the Canadian Institute of Chartered Accountants and the Canadian Institute of Actuaries, and perhaps that issue might best be addressed by the Canadian Institute of Chartered Accountants and the Canadian Institute of Actuaries.

Mr. Mackenzie: If you would spend just a minute or two on that last point you made: What are you getting at? Is there some question in people's minds as to how they arrive at the balance or the evaluation of a plan or of the assets it holds, or is there some argument within the professions?

Mr. Cockburn: No, I don't think that's the case. In making our comments we are just reacting to the royal commission recommendation that said that the Canadian Institute of Actuaries should be asked to undertake, in collaboration with the Canadian Institute of Chartered Accountants, the early development of a standard form of actuarial valuation balance sheet which will provide more meaningful information as to the funded status of the pension plan for disclosure to employees.

In the detailed discussion in I think it's volume 2 or volume 3 of the royal commission report the royal commission commented that perhaps the Institute of Chartered Accountants of Ontario might be involved in this process, and all we're saying is that if the Canadian Institute of Actuaries would like to involve us in this we're happy to co-operate with them.

10:40 a.m.

Mr. Mackenzie: I am not suggesting anybody is saying anything is wrong, but the inference in that statement is that people generally are not happy that they have got the best method or some kind of a standard method at least of doing an evaluation. That is really what I'm curious about.

Mr. Cockburn: I think perhaps the royal commission had some concerns about actuarial valuation methods.

Mr. Mackenzie: Is there not now existing a pretty standard method of dealing with it?

Mr. Cockburn: We can get into the area of actuarial valuation methods. There are probably five or six different actuarial cost methods that are used by actuaries in valuing actuarial liabilities for pension plans. All of them are used. Some are more popular than others. I think the royal commission was perhaps hoping to reduce the number of options that were available.

Mr. Mackenzie: Notwithstanding what is involved in them, and I do not know that I really want to get into that deeply, are you likely to come up with different results depending on which of the four or five different methods you use?

Mr. Cockburn: That is a topic that requires a considerable amount of study. Basically what the royal commission was talking about here was just the presentation of what they call an actuarial balance sheet, and they were suggesting, not that there should be in

this recommendation uniformity of actuarial methods, but perhaps there should be uniformity in presenting that actuarial balance sheet and the actuarial cost methods that have been employed in developing that balance sheet. That is a different issue.

Mr. Mackenzie: As I asked just a moment ago, are you likely to come up with any different results depending on the method used?

Mr. Cockburn: That is hard to say. We have not been invited by the Canadian Institute of Actuaries to get involved in this process.

Mr. Mackenzie: Maybe I can get a response from Wells on this.

Mr. Gillies: I think Wells was quite adamant about it in the fall, as I recall, that actuarial science is not a precise science.

Mr. Mackenzie: I remember those comments.

Mr. Bentley: The situation is simply that it has taken me 18 years to learn how to read an actuarial balance sheet, and I am not too damned sure I--

Mr. Mackenzie: Which one of the five are you reading?

Mr. Bentley: They are presented in such a variety of fashions that it would be very difficult for, shall I say--I would have to use the expression--

Mr. Chairman: I don't think you are making the point that you are a slow learner, are you?

Mr. Van Horne: Wells, do these vary from province to province? Would Ontario use basically form A as opposed to another province?

Mr. Bentley: No. What the pension commission historically has done, it has accepted the method, the assumptions that are used by the actuary for a particular pension plan, providing those methods and assumptions meet the criteria that the pension commission feels must be met when he uses that particular method and some of the assumptions. So they vary all over the map.

I think what the royal commission did say, and I think Don explained this, is that there should be a reasonably standard form of presenting the actuarial balance sheet for the benefit of the employee member of the plan so that it would be understandable to that person, and I see nothing wrong with this.

We can use a balance sheet that comes in an evaluation report, and it is fine for our purposes. But I would defy a lot of people to understand how the hell that balance sheet is set out. It can be transcribed reasonably well. I have caused people to have to do it for employees when they are entitled to receive the information. I have caused them to change the balance sheet and present it in a

reasonable format so it could be understood, I think, by any person who is interested. I think it can be done.

Mr. Cockburn: Even accountants.

Mr. Bentley: That I am not--

Mr. Van Horne: So that an employee in Alberta who was accustomed to looking at a certain form each year to see how the plan stood, if he moved to Ontario and was into a portable thing, would then be able to understand what he read in Ontario?

Mr. Bentley: This is the idea behind the whole thing. The current situation is simply that in Quebec and in Ontario we require certain information to be provided to the employee upon his request. Included in that is the latest actuarial balance sheet. The other jurisdictions in Canada have not gone that far at the present time. Manitoba requires a different set of information, mostly relating to the financial statements, and there is a difference between the financial statements and the actuarial balance sheet.

What I think would be desirable is that the legislation in all jurisdictions should be uniform, and I can assure you we are working towards that, so that an employee who would be a member of the same plan, resident and working in Alberta, and an employee in Ontario, resident and working here, would have the same information provided to them utilizing the same format. If we can accomplish that, then I think we have accomplished something worthwhile.

It isn't necessary that the format be exactly the same for every pension plan, because they all vary. In your flat benefit plans you have a different set of circumstances than you would in your final pay plans and so on, but if you can arrive at a format, and I think this can be done reasonably, then I think the legislation would be satisfied and I think the employees then would get reasonable and adequate information about the status of the plan of which they are members.

Mr. Williams: Would you not still, Mr. Bentley, have to have in effect at least five variations of the standard form to accomodate recommendation 58, which defines the five actuarial funding methods that are prescribed, so that while obviously it is desirable to have the standard form in order that we can compare apples to apples, you are still going to have that variation?

Mr. Bentley: You will always have that variation if you permit a variety of methods to be used by the actuary in computing the costs and the liabilities for the plan. The current requirement under Ontario law at the present time is, when the employee requests the information, and it must be given to him, then not only is the balance sheet to be provided, but also the methods employed. In other words, the employer has to set out the methods employed and the assumptions used by the actuary so that the employee understands that this was the method employed and these were the assumptions used in arriving at these particular conclusions.

Now I fully realize most employees would have a great deal of difficulty in arriving at a conclusion themselves, but it would mean

simply that they could take it to some expert or somebody who has knowledge of this and it could be easily translated for them. If they just had the balance sheet without the methods of assumptions employed by the actuary, then, of course, they're dead. It wouldn't mean a darned thing. It wouldn't mean anything to me unless I understood what assumptions were being used by the actuary and what methods were being employed.

Mr. Williams: Mr. Chairman, if I could come back to a couple of things here that were raised earlier in the brief, Mr. Cockburn, coming back again to recommendation 84, I wanted to be clear that your association had no difficulty with the distinctions that have been made in the recommendation with regard to the fact that there must be an annual audit as it relates to multi-employer plans and that with regard to employment pension plans retaining the services of an insurance company or a trust company with in-house auditing services that this would be an exception to requiring an annual outside audit.

10:50 a.m.

Mr. Cockburn: The proposed legislation contemplates an annual audit of all plans regardless of size and irrespective of whether it is a multi-employer plan or not. Where assets are held by an insurance company or a trust company, there is provision in the proposed legislation that where an auditor relies on a certificate made by a financial institution acting as a custodian or trustee in respect of the pension plan, the auditor should identify in his report the certificates that he has relied on, in what respect the auditor is relying on such certificates, and then he may have to make some additional comment in his report as may be appropriate.

I think the understanding between the pension commission representatives and ourselves has really responded to the royal commission's thoughts in this matter.

Mr. Williams: You seem to be giving more attention to the proposed legislation to which you are privy rather than to the specific recommendations of the royal commission, which differentiates between the multi-employer plans and all other employment pension plans which go through the triennial audit situation. It was in that context that I was asking for confirmation that you see the validity of that distinction, that there is greater need to have an annual audit of the multi-employer plans because of their diverse nature, notwithstanding they have a central board of trustees and so forth, but because of their characteristics.

I think I can see why it is desirable to ensure that there be an annual audit in that area, whereas it would not be as necessary in the single-employer plans, necessarily. I was just trying to determine whether you agree with that distinction that has been made, allowing for the fact that draft legislation is suggesting something different from what the recommendation is.

Mr. Cockburn: We, as an institute, think it should be a requirement for both multi-employer plans and single-employer plans that the audit be carried out on an annual basis, subject to some concerns that we have already expressed about the cost-benefit

considerations of the smaller pension plan.

Mr. Williams: This may be a sensitive area to the association, but could there not be a happy compromise achieved from the cost-benefit point of view of these smaller pension plans if they had, in the interceding two-year period between the triennial audit, a review made of their books on an annual basis, on a basis something less than a full audit, such as might be conducted by allied professions within the auditing field? They might be CPAs or CGAs; I do not know which category would more likely fall into that situation, but it seems to me that CGAs carry out a less intensive review of accounting procedures and practices in firms and yet are in a position to prepare sufficiently detailed financial information for income tax and other purposes without having to go to a full-scale audit each and every year such as you are equipped to perform.

Mr. Skinner: I think the institute is firmly on record in arguing that there ought to be a single standard for auditing in Ontario. That could be argued by someone else to be self-serving, but when you think about the implications of having various people conducting the same function calling it the same thing, we are operating under different standards; you just define chaos in the mind of the reader, because the reader is perhaps not as sophisticated.

I think what Don Cockburn alluded to earlier is the possible tradeoffs in the area of cost-benefit would be to have it still done by a licensed public accountant in Ontario who would be 99.5 per cent likely to be a chartered accountant but rather there would a review engagement, which is a review of the financial statements implying more judgement and plausibility but not going down and looking at the hard evidence to the same extent you would in an audit.

If we put that question to council, I think it would be a unanimous: "For goodness' sake, no. Don't have other people, no matter who they are, doing something you are calling an audit in Ontario that isn't an audit to the standard that is required under the Public Accountancy Act."

Mr. Chairman: If I might make a comment: If you are not going to do a full audit, you would probably want to have the most skilled and able person do the review rather than the other way around.

Mr. Skinner: That is true.

Mr. Williams: I'm not debating the points as between different groups or associations within the financial field; let us stay within the Institute of Chartered Accountants.

It is my understanding that accountants frequently do conduct less than full audits for small business accounts, limited to providing them with the essential information necessary for annual tax returns and making other annual statements without going the full audit route, which they may conduct every other year or as the case may be to accommodate that cost-benefit feature of the smallish

firm.

Mr. Skinner: The standard accountant's comment, to which Don alluded earlier, says basically, "We have performed a review," and goes on to specifically state, "We have not performed an audit." But our CICA handbook, which describes the standard to which we are performing it, enforces upon us the obligation to ensure to the best of our knowledge that the statement is prepared in accordance with generally accepted accounting principles. To that end, you have to go and ask yourself all the tough questions a skilled professional should ask, "Does this makes sense?" and to inquire, to review, to compare and that sort of thing. Short of looking at the hard evidence--has somebody stolen the securities?--that is the only place where it could likely fall down; or if there were a serious systems flaw that was subtle, one that didn't stick out at you. But there are some risks. You can't insure yourself against everything in this world.

Mr. Williams: By way of illustration, following on the one you gave us earlier--and I realize these dollars, from $3,000 to $5,000, are relative, depending on the intricacies and complexity of the structuring, the books of the organization and so forth--it is my understanding, using that $3,000 to $5,000 range for a full-scale audit, by comparison, to do the skeleton review--if I can use that term--without fleshing it out to the full audit, a chartered accountancy firm could probably do that for the same client for perhaps 10 or 20 per cent of the full-scale cost, maybe $500 to $1,000 instead of $3,000 to $5,000 if they were giving them a mini-version of an audit. It is layman's language I am using, of course.

11 a.m.

Mr. Skinner: I would not think the falloff would be quite that hard, but keep in mind that the key determinants, I still think, would not be between an audit and a review engagement but rather the complexity of the plan and the adequacy of the administration and records. Obviously, a 100-man, money-purchase plan pension fund that was all held by one trustee which is a reputable firm and keeps the records by individual is a very easy audit and a very easy review and in most cases is not expensive. If you had a 10-man plan that was based on a final earn-out and interest rates and you kept your own securities and old Joe was the accountant for it in the plant, you might burn up a lot of time trying to get that in shape, either with a review or an audit.

As Don said earlier, it is very hard to quantify what we are talking about. I would guess that if three to five were the right range for an audit, it might be one to five for a review. By the time you hit five in either case might be the time that you had a problem with a very complex plan or some other loose administration with do-it-yourselfers.

Mr. Williams: I have noted with interest that within your profession, certainly with regard to the larger accounting firms, there is a tendency to move into the suburban areas and set up small branch offices to serve the smaller industries in those communities with a proportional adjustment, I guess, of fees, to accommodate the

smaller operations and so forth, to get closer to the larger number of businesses and industries out there that can benefit from that type of assessment.

Mr. Skinner: I think the Ontario government has faced up to the problems of the cost of operating in downtown Toronto versus the rest of the province. It is partially that.

Mr. Chairman: Decentralization.

Mr. Skinner: Yes.

Mr. Chairman: Mr. LaFlair, you had a comment?

Mr. LaFlair: I just wanted to give a clarification on the original question. In the second part I believe there was some reference to the internal auditors of insurance companies and trust companies, is that correct?

Mr. Williams: Yes.

Mr. LaFlair: I do not think that would be the way we would have interpreted this recommendation. I believe what was meant there would have been the external auditors of the insurance company giving some assurance to the other auditors.

Mr. Cockburn: Given by the auditors of such company, meaning the external auditors of the trust company or the insurance company.

Mr. Williams: Let us just go back. The recommendation is that the audit report be certified by a chartered accountant and be filed with the pension commission for all employment pension plans, except where assets are held by an insurance company or a trust company, and a certificate as to the existence of assets is given by the auditors of such company. I take that as the exception. Without that exception, it is the responsibility of an outside chartered accountancy firm to file the audit report on the pension fund with the pension commission. Is that not a right interpretation of that section?

Mr. Cockburn: I think that Mr. LaFlair was referring to the fact that the certificate given as to the existence of assets held by an insurance company or trust company would be given by the insurance company's or trust company's auditors.

Mr. Williams: By their auditors?

Mr. LaFlair: Yes, not the staff auditors but the person who does the audit.

Mr. Cockburn: The external auditors.

Mr. Williams: I see the neat distinction, okay. So you have no quarrel with that?

Mr. Cockburn: No.

Mr. Bentley: What he means is that we browbeat.

Mr. Chairman: I would hope not, Mr. Bentley. Are there further questions? I presume you wish the questions to be confined to the substance of your report or do you feel you are able to field more wide-ranging questions?

Mr. Cockburn: If the questions are more wide ranging than disclosure and audit, then I guess you would not be getting the official view of the Institute of Chartered Accountants of Ontario, but just the views of people who--

Mr. Chairman: Who are very experienced in the area.

Mr. Cockburn: --who have read the royal commission report.

Mr. Gillies: Faced with that premise, I would like to ask these gentlemen what they think of the PURS concept. You did say anything goes.

Mr. Cockburn: For my own part I don't really know all that much about it, other than what I have read in the summary report of the royal commission, and I have touched on, read quickly through some of the material that has been written in the other volumes of the royal commission report.

I would prefer to duck on that. I really haven't come to any conclusion on PURS. I think it is kind of an imaginative approach and I am not sure whether it will fly.

Mr. Chairman: There has been a concern expressed on many occasions in regard to the financial impact of any enrichment of the pension system, whether it be a PURS program or a beefed up Canada pension plan, because when you are dealing with the small businessman it may be the last straw, so to speak, especially under current economic conditions.

As professionals daily involved in business activities presumably, not only in your own line of work, but in businesses of all sizes, do you feel that is a valid criticism at the present time?

Mr. Cockburn: Do you mean the implementation of PURS would just add an additional cost for the small businessman that might sort of tip the scales towards him going under, type of thing?

Mr. Chairman: It is another two per cent employee, two per cent employer. We hear the same type of thing regardless of the type of plan, although we have also heard that when the Canada pension plan was initially instituted, they did not suffer any severe hardship, that is, the little businessman did not disappear. Do you have any comment you could make on that?

Mr. Cockburn: I could react to it in much the same way as you suggested in your comments. When CPP came into being I would think the same sorts of comments were made. If something along the line of PURS were introduced, I would think there would be a period of difficulty in digesting the additional costs, but they would ultimately be digested and life would go on.

I might add, from any comments that I have had with business, PURS is not high up on their list of problems. They have not really been discussing it one way or the other. Perhaps they have been sort of adopting a wait-and-see attitude, I don't know. Perhaps they don't think it is going to come into being, I don't know, but certainly it has not been a topic of great debate, in my view, in business.

11:10 a.m.

Mr. Chairman: Has an enriched Canada pension plan been a topic of any greater debate?

Mr. Cockburn: I would think that has been the topic of more debate than PURS. My reading is that business is generally opposed to expanding the CPP beyond its current scale.

Mr. Skinner: I suppose we are all clearly into the realm of economics and social trade-offs rather than accounting. One might note that, first, you almost have to divide the spectrum of what you are talking about into domestic-type business and business that depends to some material extent on exporting. In the exporting argument you have the problem of making our goods less competitive, because they are a greater labour burden inside the country. Most people might argue that what Don has just observed might be the outfall, but our firm's clients are typically the smaller to medium-sized businesses, whereas perhaps Clarkson Gordon's are larger. Depending on which circles you are moving in, you get quite a different sort of reaction.

The unfortunate problem you as the elected representatives of the people have is that you are doing what you perceive is going to be good for a large number of people over a long period of time; and what you are, basically, doing is instituting a forced saving plan. I suppose the total conceptual trade-off is increased social benefit program somewhere down the line, where those people who do not have that forced saving are going to be making demands on the Parliament of the day.

Mr. Chairman: The taxpayers of the day, really.

Mr. Cockburn: That's right. It is a very tough trade-off.

Mr. Williams: If I might just come back to the brief, there were just three quick questions that I have by way of clarification. On page two, in the second sentence you say, "We note that the royal commission recommended annual reporting of certain plan information to plan members." Are you, specifically, referring to that part of recommendation 84 dealing with the multi-employer plans, or is it something else?

Mr. Cockburn: It is recommendation 83 that we are talking about on page two.

Mr. Williams: Oh, yes; right.

Mr. Cockburn: In recommendation 83, you see that the final

information should be routinely disclosed annually.

Mr. Williams: Right. Just coming over to page three, in the second full paragraph, starting with, "The royal commission..." in the second sentence, "Further, our understanding is that the pension commission will be prescribing an annual audit requirement." From whence does this understanding arise?

Mr. Cockburn: Just from our participating with the representatives of the pension commission in assisting in drafting up some proposed legislation.

Mr. Williams: So this is related to the ongoing in-house work you are doing on this draft legislation that you talk about further elsewhere in your brief, and that is all part of that process. You indicate elsewhere in the brief that you have been asked to assist in preparing draft legislation--I guess it's the next paragraph--and that is part of the thought that has been put forward by the commission people.

Mr. Cockburn: Yes; that is right.

Mr. Williams: The last sentence in that paragraph is "Further, our understanding is that the pension commission will take into account the royal commission's comments...with respect to insured or partly insured plans." You refer us to page 22 of volume three of the royal commission report. Unfortunately I do not have that before me. Could you elaborate on the significance of that observation?

Mr. Cockburn: Yes. The royal commission had some observations about the sort of information that would require audit attestation. In the case of fully insured plans, the moneys are paid over to a life insurance company and the life insurance company, in effect, assumes the risk associated with the payment of the pension plans. The risk no longer is with the pension fund; it is with the life insurance company.

The royal commission observed, and the Pension Commission of Ontario concur, that notwithstanding the fact that the insurance company has assumed the risk, one still needs to have some attestation given to the contributions which have been paid over to the insurance company. So, that has been reflected in the proposed legislation. In other words, somebody should do some audit work to ensure that the right amount has been withheld from the employees if the employer is paying the appropriate amount. Together, those two amounts were paid the life insurance company.

Mr. Chairman: Are there any further questions? If not, thank you very much, gentlemen, for taking some of your valuable time to come before the committee. We appreciate very much the contribution you have made.

Mr. Cockburn: Thank you for inviting us.

Mr. Skinner: Mr. Chairman and members of the committee, we thank you, and if there is anything we can do, please ask.

Mr. Chairman: Gentlemen, since last day we have now entered into your binders the following exhibits, which I would like to read out for purposes of the record:

Exhibit 177, from the committee research officer, background information, dated January 15, 1982, Compendium of Royal Commission Recommendations; exhibit 178, committee research officer, summary of presentations on January 21, 1982, dated January 22, 1982; exhibit 179, committee research officer, background information, dated January 20, 1982, from James O'Mara, research officer, entitled Benefit Data: Ontario Public Sector Plans.

Exhibit 180, submission dated January 14, 1982, from J. L. Wolfson, 951 Blythdale Road, Ottawa; exhibit 181, Canadian Co-ordinating Committee on Multi-Employer Pension Plans, submission dated January 25, 1982, from James A. McCambly, chairman, and Clifford Evans, secretary, 115 Sparks Street, Suite 814, Ottawa;

Exhibit 182, committee research officer, summary of presentations January 22, 1982, dated January 25, 1982; exhibit 183, Retail Council of Canada, supplementary submission, dated January 22, 1982, from A. J. McKichan, president.

Exhibit 184, Canadian Federation of Independent Business, supplementary submission, dated January 25, 1982, from Brien G. Gray, director, provincial affairs, Richard A. Wietfeldt, director of research, Christoph Haehling Von Lanzenauer, professor, school of business administration, University of Western Ontario.

Exhibit 185, YWCA of Metropolitan Toronto, January 1982, from Judy Campbell, Leona Gislason and Wendy Wiley, entitled Equity for Women: Women and Pensions, Recommendations for Change.

11:20 a.m.

Those have now been entered in your binders. We have also distributed to you the revised agenda for the balance of the sittings. You can look that over and note the additions. Tomorrow morning, Wednesday, at 10 a.m. we will have before us the Sheet Metal Workers International Association, Local 537, and on Thursday morning at 10 a.m. the Automotive Parts Manufacturers' Association, for which no brief has yet been received.

The afternoons of both days and Friday will be set aside for deliberations in connection with the report. I indicated to you earlier that we have some material from our staff that we will be reviewing at that time.

If there are no further matters for discussion this morning, we will recess until two o'clock and I would ask you to be punctual.

The committee recessed at 11:21 a.m.

PR-22

SELECT COMMITTEE ON PENSIONS

SOCIAL PLANNING COUNCIL OF METROPOLITAN TORONTO
PROFIT SHARING COUNCIL OF CANADA
FINANCIAL EXECUTIVES INSTITUTE CANADA

TUESDAY, JANUARY 26, 1982

Afternoon sitting

SELECT COMMITTEE ON PENSIONS

CHAIRMAN: Taylor, J. A. (Prince Edward-Lennox PC)
VICE-CHAIRMAN: Williams, J. (Oriole PC)
Brandt, A. S. (Sarnia PC)
Cousens, D. (York Centre PC)
Cureatz, S. L.; Deputy Speaker (Durham East PC)
Gillies, P. A. (Brantford PC)
Haggerty, R. (Erie L)
Jones, T. (Mississauga North PC)
Mackenzie, R. W. (Hamilton East NDP)
McClellan, R. A. (Bellwoods NDP)
Riddell, J. K. (Huron-Middlesex L)
Van Horne, R. G. (London North L)

Clerk: Arnott, D.

Researcher: O'Mara, Dr. J., Legislative Research Service

Consultant: Bentley, W., Superintendent of Pensions, Pension Commission of Ontario

Witnesses:
From the Social Planning Council of Metropolitan Toronto:
Frerichs, E., President
Patterson, J., Senior Program Director
Simerl, L., Assistant Program Director

From the Profit Sharing Council of Canada:
Bochen, S., First Vice-Chairman
Brown, H., President
King, H. A., Past Chairman
Lush, S., Past Chairman
Welch, M., Immediate Past Chairman

From the Financial Executives Institute Canada:
Hewitt, W. E., Manager, Pension Investments, Imperial Oil Limited
Smith, K. H., President
White, C. W., Chairman, FEIC Employee Benefits Committee; Vice-President, Metropolitan Life

ERRATUM

In issue PR-19, Mr. William McColl, of the Retail Council of Canada, was incorrectly identified on some pages as Mr. McCall.

LEGISLATURE OF ONTARIO

SELECT COMMITTEE ON PENSIONS

Tuesday, January 26, 1982

The committee resumed at 2:15 p.m. in room No. 151.

SOCIAL PLANNING COUNCIL OF METROPOLITAN TORONTO

Mr. Chairman: Gentlemen, we might get started before the afternoon evaporates. We have as the first item on our agenda this afternoon the Social Planning Council of Metropolitan Toronto, represented by Mr. Eilert Frerichs, president; Jeffrey Patterson, senior program director; and Loren Simerl, assistant program director. I wonder, gentlemen, if you'd come forward and grab a chair. We have copies of your brief--your second brief. We have that.

Mr. Frerichs: That's correct. We submitted one in late August, I guess, and I think we're very grateful that you asked us to come back. The pension area obviously is one in which we have done a fair amount of work over the last number of years. We submitted a major brief to the royal commission, and then, of course, in August the first brief, entitled Justice for Pensioners.

I think, Mr. Chairman, the easiest way to do it is if I just read the document to you. This way we are going to be sure to get everything covered.

Mr. Chairman: Very well.

Mr. Frerichs: In your report the select committee quoted and accepted the royal commission's view that old age security, the federal guaranteed income supplement and the provincial guaranteed annual income system together enabled a minimum adequate standard of living for a married couple. They concluded as well that this is far from true in the case of single or unmarried elderly persons. They recommended that the income provided single or unmarried elderly persons should be increased to achieve the same standard of living. We basically agree with these principles and conclusions underlying these positions.

The social planning council is the only organization in Ontario which publishes standards for goods and services for consumption by elderly persons that would provide an adequate level of living; so we are in a unique position of being able to comment on income adequacy.

While the old age supplement, guaranteed income supplement and Gains annual income for a couple was $11,139.84 as of October 1981, the income required for the consumption of what we would consider to be an adequate bundle of goods and services stood at $11,324, slightly higher than the OAS-GIS-Gains annual income.

While the OAS-GIS-Gains income for a single elderly person was $5,918.88 in October 1981, the cost of the council's basket of goods and services for a single elderly individual stood at $7,956, almost $2,000 more than provided by the guaranteed income system.

In the council's view the disparity between the income guarantees for elderly couples and singles has developed, at least in part, because neither the Ontario nor Canadian government has developed and employed a concept of adequacy in establishing programs of income maintenance. The social planning council recommends, as we did in our earlier brief, that Ontario develop and employ a standard of income adequacy as a basis for establishing their retirement income programs.

Increasing Gains and survivors' benefits: The social planning council supports the recommended immediate increase in payments under the guaranteed income system for single elderly persons in order to provide them with an adequate level of income. Those people who have not been able to build up adequate pensions for their retirement years and who may not be with us when improved pension systems reach maturity must not be penalized in their retirement years.

2:20 p.m.

We would prefer that the necessary adjustment be made in the federal guaranteed income supplement, as its rate of taxback, for those with incomes barely over the minimum level, is much less punitive than is the case for the provincial plan, but we would argue that the adjustment be made in the provincial guaranteed annual income system program if the federal government proves unwilling to adjust its policies. Council, however, asserts that the receipt by a single elderly person of 60 per cent of the income of a couple would not achieve the goal of income adequacy.

If the select committee's goal is a similarly adequate standard of living for both single and married elderly persons, then it is appropriate to consider both the federal government's low income cutoffs, and the council's adequacy standards, for such one and two-person households. Canada's low-income cutoffs, which are published annually, show that a single person needs 69 per cent of the income of a couple, a ratio which remains constant across communities of all sizes.

The council's adequacy standards, which were arrived at by pricing a specific basket of goods and services appropriate for elderly persons, indicate that a single elderly person needs 70 per cent as much income as a couple to enjoy the same standard of living. Since both income standards, which were independently arrived at, agree that individuals living alone need about 70 per cent of a couple's income, there appear to be strong grounds for arguing that 60 per cent is not adequate. The council recommends that the OAS-GIS-Gains retirement income be increased so that single persons receive 70 per cent of the income guaranteed to a married couple.

The council also recommends that the Ontario government press the federal government for a similar increase in survivor benefits in the Canada pension plan. Loneliness in old age of the loss of a lifetime companion should not be the occasion of a suddenly lowered standard of living. Survivor benefits should be increased from 60 per cent to 70 per cent of the original Canada pension amount.

While there will be those who decry the cost of such programs to aid the single elderly, the fact of the matter is that regardless of the exact income ratio which may be established through research, such reforms seeks only to provide single elderly persons with the same standard of living that is already guaranteed for couples. We insist that all individuals, whether living alone or as part of a couple, are entitled to the same level of living, or the same standard of living.

From adequate incomes to adequate pensions: Most Canadians seem to be in agreement that Canada's and Ontario's current pension systems do not meet the needs of retirees. Both the Royal Commission on the Status of Pensions in Ontario and this select committee, in its first report, are in agreement with this conclusion.

It is also noteworthy that in the 1943 Report on Social Security for Canada, Dr. Leonard Marsh asserted that since industrial retirement plans would probably never be extended to even the majority of employees, and since in any case they cannot protect the important group of ageing persons working on their own account and not engaged in industry, they cannot be regarded as an alternative to an inclusive state-operated plan. Little has changed in 40 years. Marsh's conclusions continue to be relevant.

I was thinking earlier today, Mr. Chairman, of a neat way to sort of introduce this presentation. The best thing I could come up with is that the title for this afternoon's sessions is pensions, but the real issue is poverty among the elderly. It seems to me this is what we have to address in this whole process.

Canadians, and Ontarians, are seeking a better system. Considerable disagreement exists regarding basic changes in our retirement income system. Some argue that the private pension system can be modified to meet the needs of the nation and of the province. Earlier vesting, improved portability, increased coverage and so forth will provide a retirement income system.

The Royal Commission on the Status of Pensions in Ontario asserted that the private pension system would likely never have the degree of coverage that is required, namely, something approaching 100 per cent. They therefore recommended the establishment of a provincial universal retirement system, or PURS.

The social planning council asserts that neither the private pension system and industry nor the PURS system recommended by the royal commission can possibly meet this province's needs in the coming years.

The proportion of workers who can expect a company pension upon retirement is still not much more than 40 per cent, or 30 per cent if public sector workers are excluded from consideration. In 1964, the federal Royal Commission on Medical Care Services recommended the establishment of a national mandatory social insurance system for medical care because private sector plans were not available to large proportions of workers and because the magnitude of inadequate coverage had remained constant for a long

time. For similar reasons, we argue that the private pension industry will never be able to offer Ontarians an adequate pension system; so alternative solutions must be sought.

The social planning council recommends that the royal commission's provincial universal retirement system should not be implemented. Such a plan would apply only to Ontario. It would be many years, 30 in most cases, before it provided pensioners with adequate retirement incomes. In the case of workers with low incomes--and this includes great numbers of Ontario women--PURS would perpetuate inadequate incomes in retirement years.

Changes in the Canada pension plan: The social planning council recommends that the Ontario select committee should report in favour of increasing the benefits of the Canada/Quebec pension plan so that they equal at least 50 per cent of the average industrial wage, not 25 per cent as currently. Combined with the old age supplement, this would provide Ontario's workers with retirement income equal to more than 60 per cent of the average industrial wage. It is not enough to increase the combined OAS-GIS-Gains retirement income to adequate levels, although such improvements are of great immediate importance. The Canada pension plan should be seen as the primary vehicle for increased pension income.

A major stumbling block of the expansion of the CPP is the relatively regressive nature of CPP funding. The council recommends that this problem can be resolved in two ways: First, the yearly maximum pensionable earnings should be increased more rapidly, and such increases should not necessarily cease when the yearly maximum pensionable earnings reach the average industrial wage, depending on the exact magnitude of the CPP increase sought.

Second, the council recommends that the CPP employ a progressive schedule of income replacement whereby workers earning less than the average industrial wage would receive a higher net benefit payment ratio than currently, while workers earning more than the average industrial wage would receive a lower net benefit payment ratio. In these ways a degree of progressivity can be included in the benefits to reduce some of the inequities in Canadian society which originate in the work role and are then carried into retirement.

One principle which would govern the magnitude of benefits for workers who have earned low incomes throughout their lives is that the benefit for workers who have earned the minimum wage, currently about 40 per cent of the average, should be sufficient to eventually phase out the federal and provincial guaranteed income plans. Canada's pension system must move beyond the principle of residualism to one of adequacy. These steps, then, represent an effort to achieve a compromise between the more progressive nature of the income tax system which largely funds the OAS-GIS-Gains programs and the regressive nature of the current CPP funding.

The council's goal--that is, our goal of a more progressively financed CPP--and the means for achieving this objective are substantially the same as in the council's 1979 brief to the Royal Commission on the Status of Pensions in Ontario.

Employer-sponsored pensions, deferred wages and portability: The social planning council supports the concept of employer-sponsored pensions as deferred wages. The social planning council, therefore, generally supports the select committee's recommendations four to 18 and its interim report to the Legislature. We support the recommendations with three qualifications, however.

2:30 p.m.

First, as noted above, we recommend that survivor benefits be established at a minimum level of 70 per cent of the value of the pension. Second, we would recommend that the government's standards for disclosure (recommendation 14) at least meet the standards set in our recommendation 7 which follows. Third, we think employees should be entitled to elect half the managers of a private pension plan, not just one as in your recommendation 15.

The council agrees that the introduction of such standardized reforms as earlier vesting and locking-in of benefits, the excess interest method of coping with inflation and other means of increasing the value of employee pensions and of increasing the employee's control over and information about his or her pension flow from the concept of pensions as deferred wages and show respect for the employee's proprietory interest in employer-sponsored pensions.

The council believes the recommendation by the select committee to pursue the vesting of employment pensions after less than five years' employment is extremely important and consistent with the view of pension contributions as deferred income.

The council adds the recommendation that Ontario legislate portability between employer-sponsored pension plans. If portability can be fairly legislated, it would offer the employee a valuable choice with regard to retirement planning and a possible alternative to the use of a noncommutable RRSP investment vehicle, which the select committee has already recommended.

Pensionable age: The ability of an employee to choose, within reasonable limits, his or her pensionable age is important. On the one hand, illness or other crises may create the need for earlier retirement and earlier pension benefits. A good pension plan and long years of employment may induce some to opt voluntarily for an earlier retirement if they have some control over their pensionable age. On the other hand, many persons in the work force may take great satisfaction in their work and/or in the higher standard of living derived from employment income and may wish to continue employment beyond age 65.

The council recommends that pensionable age for both the Canada pension plan and employer-sponsored pensions be flexible between the ages of 60 and 70. We would qualify our recommendation only by noting that it is contingent on the development of an adequate retirement income system. We would not recommend such flexibility over the age of 65 years in the absence of an adequate system.

The lack of information about employer-sponsored pensions: The social planning council recommends that the Ontario government provide more and better information about the number of persons covered by an employment pension plan, the percentage of workers who actually collect a pension benefit and other information about the level of benefits, years of service, vesting, interest earned, size of company, et cetera, which would enable both the citizens and the government to understand and monitor the current and future developments in this crucial field. In asking for this information, the council is at least partially basing its request on the need for better information which the select committee itself expressed in its interim report.

Mr. McClellan: You raised the last recommendation with Mr. Bentley. I am glad you brought it up, because one of the problems we have been having is getting basic information about private plans. It is one of the few things that is not Mr. Bentley's fault--I'm joking. One of the defects in the mandate of the pension commission is the lack of a statistical arm. It is something I think we want to take a look at.

I want to come back to the beginning of your report where you talk about the social planning council's budget guides and its evolution into a standard of adequacy. You recommend that the Ontario government adopt a standard of adequacy for income retirement programs. But you don't specify which standard of adequacy the Ontario government should adopt.

Throughout this report you talk equally about the Statistics Canada low-income cutoff line and your own standard. Does the council have a position with respect to whether it would accept the Statistics Canada low-income cutoff line as a standard of adequacy, or are you arguing for the budget guide?

Mr. Frerichs: I guess we would opt for our own budget guides, for the very important reason, it seems to me, that our cutoff lines, or our adequacy lines, are considerably higher in most instances than those of Statistics Canada.

Mr. McClellan: Okay. Maybe you could just outline again, Mr. Patterson, the difference between the social planning council's standard of adequacy and the Statistics Canada poverty line.

Mr. Patterson: What is the magnitude of the difference?

Mr. McClellan: No. What is the basis of the calculation?

Mr. Patterson: Our standard basket of goods and services; and included in the social planning council's budget guides which, by the way, we also submitted earlier to this committee as a document, is one that is based on what a committee of experts throughout Metro determined to be an adequate level of consumption, whereas Statistics Canada's low-income cutoffs and poverty lines are just that: a standard of poverty. Our view, of course, is that people should be guaranteed an adequate standard of living and not a poverty standard of living.

It should be noted, by the way, that the guaranteed income system right now does not even guarantee for single individuals poverty standards.

Mr. Chairman: Mr. Patterson, if I can interject on that point, do you take into consideration, or is it sensible to take into consideration, the different standards in different parts of Ontario? Or are your figures based on Metropolitan Toronto needs or the needs of persons within Toronto?

Mr. Patterson: Our figures are based on Metropolitan Toronto but, as we pointed out in this brief, if one looks at Statistics Canada's low-income cutoffs, which are done for various sized communities, including rural areas, the 70 per cent figure applies across the board. Some items differ from one area to another. Food is actually cheaper in Toronto than it is in most other parts of this province; we know that housing is more expensive in Toronto. But, on the whole, a lot of the differences balance out.

Mr. Frerichs: Transportation costs in rural areas might be considerably higher, for instance, than in Metropolitan Toronto. We have a transit system here. So it balances itself out.

Mr. Chairman: I appreciate the difference. I've had the experience of living both in the Toronto area and in a rural area; so I appreciate there are differences and wherein they lie and how you would adjust to accommodate the differences.

Mr. Frerichs: It balances itself out roughly, it seems to me.

Mr. Chairman: But your figures are taken, when you talk about your basket, on the Toronto standard.

Mr. Patterson: It is the Toronto standard, but we are urging the government of Ontario to establish a standard of adequacy rather than one of poverty for the whole province. That might vary by some percentage from what the standard would be for Metropolitan Toronto, but we're nevertheless asserting that the standard should be established and then supported by way of the guaranteed income system.

Mr. Chairman: I'm sorry to have interrupted you, Mr. McClellan.

Mr. McClellan: I realize you have already submitted two documents to us and this may be an imposition, but it might be helpful if you could provide even a short appendix to this brief providing the numbers with respect to current adequate income levels in relation to the points you are making on page two of the brief so that all the members of the committee would have the benefit of existing income levels under old age supplement, guaranteed income supplement, guaranteed annual income system--the incomes under--

Mr. Frerichs: Isn't it on page two?

Mr. McClellan: Am I wrong? I'm sorry. Have we got it?

Mr. Frerichs: The other thing is that the appendix to our first brief, Mr. McClellan, contains this elderly household sample budget in terms of 1981 costs. Okay? There we conclude that for--

Mr. McClellan: Sorry; I missed that.

Mr. Frerichs: It is in the brief with the orange cover on it. Gross incomes required for the sample households, $7,489 for a woman renter, $6,436 for a male renter, and so on down the line.

2:40 p.m.

Mr. McClellan: What is the current Statistics Canada low-income cutoff line for singles and for couples in large urban areas?

Mr. Frerichs: I think it is around $5,800 to $6,000 for a single person.

Mr. McClellan: We can put that together.

Mr. Frerichs: If you want the exact figures, we can certainly supply them.

Mr. McClellan: I wasn't sure we had your figures. It is easy to get Statistics Canada data.

When you are talking about reforms to the Canada pension plan, my sense is that your recommendations deal with some of the major problems but not all of them. The one that continues to concern me is the question of coverage of homeworkers.

Various suggestions have been put forward as to how you design a pension plan not just to take into account inequalities in the structure of the labour market to make sure they are not reflected in worsened form in structural retirement incomes but also how you cover people who make, for a variety of valid reasons, lifestyle choices such as whether they work in the labour market or in the home. I am not sure you would go about amending an occupationally based plan in ways that provide coverage for home workers at an adequate level. We in the New Democratic Party are leaning more in the direction of Stanley Knowles's traditional reliance on old age security rather than an exclusive or even major reliance on Canada pension.

Mr. Patterson: There may be only a slight difference there between what you stated and what is stated in this brief. Partly for that reason we have not recommended phasing out the OAS portion of the guaranteed income system that exists now. Our primary objective has been to guarantee a continuation of income into retirement years, thereby guaranteeing continuation of the given level of standard of living that people have become accustomed to. Recognition of that fact in the public pension system would go a long way.

I would add, though, that the progressive payout which we are

recommending in this brief would go some distance in correcting discrimination against women workers, many of whom earn closer to the minimum wage than to the average wage.

Mr. McClellan: Are you talking about a minimum benefit under CPP?

Mr. Patterson: Yes. We have said the minimum benefit should be 50 per cent of the average industrial wage.

Mr. McClellan: Where is that? I am obviously having trouble today

Mr. Frerichs: It is the bottom of page four, dealing with changes in the CPP, the first recommendation: "The social planning council recommends that the Ontario select committee should report in favour of increasing the benefits under the Canada/Quebec pension plan so that they equal at least 50 per cent of the average industrial wage, not 25 per cent as currently."

Mr. McClellan: But those are not minimum benefits; those are benefits. Are you advocating there should be a minimum that would be paid--

Mr. Frerichs: Into the plan?

Mr. McClellan: For low-income earners.

Mr. Patterson: Mr. McClellan, that is on page five, the second full paragraph beginning, "Secondly, the council recommends that the CPP employ a progressive schedule of income replacements." The last sentence in that paragraph specifies that the principle that would govern the minimum payment as well as that progressivity would be one that would see the phasing out of the guaranteed income plan. In other words, even workers who had worked at the minimum wage or near there for most of their working lives would have enough income upon retirement that their incomes would be at least at the level of what we have called our adequacy line.

Mr. McClellan: So you would adjust the plan so that the minimum benefit corresponds with the established standard of adequacy. I understand. That would be done, in your view, through a combination of old age security and CPP, with CPP pegged at 50 per cent of the average industrial wage. Good. I don't think I have any other questions right now, Mr. Chairman.

Mr. Williams: I draw your attention to the middle of page four of your brief where you make a rather bold assertion that "Neither the private pension system and industry nor the provincial universal retirement system recommended by the royal commission can possibly meet this province's needs in the coming years."

I gather you draw this conclusion largely based upon reliance on a 17-year-old federal royal commission report dealing with another field of social services, the medical care field, and you feel there are similarities between that report and the pension field because the private sector plans are not available to large proportions of workers in the medical care field, as you feel is

the case in the pension field, and because the magnitude of inadequate coverage has remained constant for a long time.

From that authority you conclude in absolute terms that the private pension industry will never be able to offer Ontarians an adequate pension system. You indicate there are similar reasons in the old federal report that give you cause for concluding this.

I am not sure I would want to be as absolute in drawing those conclusions based on reliance on that report. I concede there are some similarities. I am not so certain, however, that there hasn't been some significant movement in the private pension field in recent times. I can't relate that to what the situation was pre-1964 as regards the constant factor you referred to with regard to inadequate coverage in the medical field.

Are there any other sources you have drawn on or do you have any other material you can direct us to that would further reinforce the argument you put forward in such absolute terms?

Mr. Patterson: I think we have a great deal. We have the federal pension conference that was convened last April. As well, we have the report of the Ontario royal commission itself which recommended only a year ago the PURS system, because the commission members themselves agreed and felt and asserted that the private pension system by itself could never reach a level of adequacy they would like to see. So I think a great many authorities are in agreement on this.

I think what some of us are in disagreement about is whether something like the PURS program put forth by the royal commission a year ago or, say, an enlargement of the Canada/Quebec pension plans, such are we are recommending herein, is what we need by way of a pension system. Everybody is agreed that the existing system is inadequate, including the royal commission.

2:50 p.m.

Mr. Williams: You refer us to the royal commission report as a source of authority, yet the royal commission is the one that is recommending the implementation of the PURS program, which you reject as part of your recommendation.

Mr. Patterson: That is right.

Mr. Frerichs: We may well agree with the royal commission's analysis of the problems but may not necessarily agree with their recommended solution to the problems.

Mr. Chairman: Maybe this would be an appropriate time--

Mr. Williams: To interrupt.

Mr. Chairman: I so seldom interrupt you.

Mr. Williams: He does this every day. We have to tolerate him.

Mr. Chairman: You have opted for the public plans as opposed to the private sector solution. Would this be an interim step, or would the answer ultimately be for a guaranteed annual income, or a negative income tax or something of that nature? Have you thought through the process to the ultimate; or do you feel this is the ultimate answer that you have recommended here? You see, it is a long time. When you use words like "never," we are looking into the future a long way. When you start taking the various social programs, you have more than a pension plan that you are proposing to change; you are developing, really, an economic and social program.

Is that a fair comment? My question from that is: Is there a better solution for what you are advocating than the Canada pension plan itself, such as a guaranteed annual income or the negative income tax?

Mr. Frerichs: I think, sir, you are asking us to make philosophical--

Mr. Chairman: Not philosophical--

Mr. Frerichs: --judgements almost, and to gaze into a future that is highly unpredictable, it seems to me. If I had some sense that the other 60 to 70 per cent of workers and those persons who are not in the labour force for one reason or another--the home workers that you mentioned, Mr. McClellan--if we had some sense that those persons in the foreseeable future would be covered by private pension systems or private sector pension plans, then I am not sure that one would have to move into the kind of direction you may want us to go into. In that sense, it is a philosophical judgement.

But we at the council have little sense that private sector pension plans will, in the foreseeable future, cover adequately the kinds of groups who are not covered now. I cannot see, in a store operation that employs half a dozen people part-time, that you can ever have a decent pension system out of that kind of operation. Therefore, it has to be done by means of the public sector for those kinds of employees--at this point anyway.

Mr. Chairman: Just to clarify for the record: I am not advocating that you interpret my question to be advocating that alternative. But I was wondering whether your proposition, in view of the changes that would have to take place within the Canada pension plan, would be creating something really quite different from work-place oriented pensions. You'd really be getting into an economic or a social blueprint of some nature, and I was wondering whether that might be an interim step in an evolutionary process of ultimately a guaranteed income for all--just to clarify the question I put to you.

Mr. Brandt, if you wanted to continue my interruption of Mr. Williams's question--

Mr. Brandt: Yes. Well, he has left, obviously out of frustration, but I would like to get a supplementary in on the point you raised and which you were responding to.

Do you not feel there is a possibility that this committee, as an example, and its whole view of pension reform might address itself to the very group you have identified and bring in some form of mandatory legislation with respect to part-time employees?

We have spent a lot of time and money in this committee trying to determine what a part-time person really is and at what point he should be covered, looking at hours of work, the term of the particular employee's service with the company and at age of employees. What do you do about students, as an example, or very casual labour? I think we need input from your organization as to at what time those individuals should be looked upon in a serious way for pension coverage. I think there's a lot more urgency, as an example, for a part-time 30-year-old than quite obviously there is for a student who's 18, living at home and maybe working casually for McDonald's. I think it's an entirely different situation.

I don't believe it has to be an either-or proposition. I think there is a middle of the road, and perhaps a public sector approach may be the best one, but perhaps as well there could be a private sector approach with some strengthening of the present legislation.

Mr. Frerichs: That may well be the case. It seems to me to be both fairer in the long run and probably more efficient, mostly from the point of view of financing public sector activities, to put the main emphasis on public sector kinds of plans and income provisions. Whether you want to call that a guaranteed annual income system or whether you want to say that we as a civilized society will make sure that nobody is poor in our society, then guaranteed annual income may become a way of doing this. The kind of legislation you outline may be another way of achieving that, but I think we need that kind of commitment.

Mr. Patterson: The public system, by basing its contributions on one's earnings, whether it be for the part-time employee, the self-employed or employed full-time for an employer, as in most cases, is a better standard than trying to legislate some standard of so many hours per week. It's safer for sure, and it does become all-inclusive. That's part of the reason, I think, that we've opted for a public system. It gets around even some of the problems that would still exist with a mandatory private retirement income system such as some people (inaudible) and, with the progressive payouts that were recommended, it solves a lot of the difficulty that one would have with people who were never able to obtain full-time employment but nevertheless found themselves at age 65. All those people would fall into those classes.

Mr. Frerichs: Increasingly, I suspect, as the economy tightens more and more in the very immediate future, people will be moving in and out of the labour force more and more: women who have children, husbands who want to spend time parenting rather than have the mother do it and so on. And, again, that kind of thing can be captured much better in a universal public kind of plan than through private employment-related sorts of plans. It's more efficient.

3 p.m.

Mr. Riddell: We are all too inclined to look at the benefit side of the equation. What about the other side of the equation, the contribution rate? You people are calling for a doubling of benefits of Canada pension. We are told that if existing benefits remain, we are looking at a nine per cent contribution rate; so I guess it follows that if we are going to double benefits we are looking at an 18 per cent contribution rate.

Do you think that these young people who are going out working and wanting to invest in a home and what not are going to thank us for saying, "Eighteen per cent of your earnings are going to go towards the pension plan"?

Mr. Frerichs: If in the meantime through the pension plan they can finance their homes, they might be very thankful, yes, which they cannot do at the present time.

Mr. Patterson: I might also add that to me seems a bit high because no European country right now, even with fully funded plans, has contribution rates that are that high just for the pension system. Even in Sweden, which has a pension plan better than we are recommending here, the contribution rate is less than 12 per cent.

Mr. Riddell: Correct me, Mr. Chairman or Mr. Bentley; in our earlier discussions, did that 18 per cent not come up?

Mr. Bentley: Yes. Anywhere between 15 and 18 per cent were the figures that were projected by various people who appeared before you.

Mr. Riddell: It is not a figure I pulled out of the air.

Mr. Patterson: I have heard that figure, too.

Mr. Riddell: It is a figure that we were given. I have been talking to a few groups around the province on this whole pension reform bit, and you talk about an 18 per cent contribution rate and some of the younger people at some of these functions are saying, "Thanks, but no thanks."

Mr. Patterson: That is 18 per cent combined employee and employer?

Mr. Riddell: I think people are suggesting Canada pension.

Mr. Patterson: Which is 50-50; 50 per cent employee, 50 per cent employer.

Mr. Haggerty: In some cases; not in all cases. If you have a particularly good bargaining unit you may get that, but in other cases the man would pay the shot himself.

Mr. Patterson: No. For CPP it is across the board for all employed persons. Only the self-employed would pay greater than 50 per cent.

Mr. Frerichs: So you are talking a maximum, even if you take your 18 per cent figure, it is going to be nine per cent in terms of the individual employee.

Mr. Riddell: Are you concerned about the tremendous pool of money that we would end up with and how that money is going to be used, or are you in agreement that governments should be able to dip into that fund and apply it to whatever purposes they feel they want to apply it, and turn around and say, "We have no intention of repaying the fund"? Are you concerned that governments might have the reins they have had in the past to do as they like with this fund?

Mr. Frerichs: One thing about government is that you can always turn it out, which you cannot do with private insurance holders.

Mr. Riddell: That is what I have been saying for 38 years.

Mr. Frerichs: But as I said a moment ago, if you are going to finance mortgages at rates that people can afford, they might be quite pleased to pay more.

Mr. Mackenzie: There is no point in your alternative, Jack.

Mr. Riddell: So you are telling me that it is quite all right for them to use these funds for the purposes they have been using them with no intention of paying them back?

Mr. Mackenzie: We have got enough argument on that.

Mr. Riddell: I guess I have been in business long enough to know that no other businessman can do that. You cannot borrow money from a bank and turn around and tell the bank manager you have no intention of paying it back.

Mr. Chairman: You can, but it does not help your line of credit.

Mr. Frerichs: You have different consequences in each case.

Mr. Chairman: Mr. Williams, were you finished when we interrupted you?

Mr. Williams: Yes.

Mr. Chairman: No further questions? Thank you very much, gentlemen, for appearing before us today and giving us the benefit of your views.

Mr. Frerichs: Thank you.

PROFIT SHARING COUNCIL OF CANADA

Mr. Chairman: The next group scheduled is the Profit Sharing Council of Canada: Mr. Michael Welch, Mr. Steve Bochen, Mr. Herbert Brown, Mr. H. Alexander King and Mr. Sheldon Lush.

Mr. Bochen: Mr. Chairman, are there more seats available? We have five in our group.

Mr. Chairman: The overflow can come into the ranks of the committee and perhaps through the osmotic process we will be enriched somehow. Mr. Williams, would you take the chair?

The Vice-Chairman: Gentlemen, the chairman, Mr. Taylor, has another commitment he is obliged to attend to this afternoon; so I will be acting as chairman during that period.

We have exhibit 105 from the Profit Sharing Council of Canada, for the benefit of the members of the committee, if you would refer to that. Is it Mr. Brown who will be acting as spokesman for the group?

Mr. Welch: Michael Welch.

The Vice-Chairman: All right, Mr. Welch, I presume you would like to make representations in support of your written brief and now is the time to do so.

Mr. Welch: Thank you, Mr. Chairman. I would just like to introduce the members of our delegation. On your extreme left is Mr. Sheldon Lush, who is a past chairman of the council; next, Mr. Herbert Brown, who is president of the council, then Mr. Alex King, who is a past chairman, and Mr. Steve Bochen, who is the first vice-chairman of the council. I myself am the immediate past chairman of the council.

The sole reason for our submission and our appearance here is to warn of a possible danger in improving or modifying the pension plan; that is, inadvertently profit sharing might be harmed. The point we are trying to make is that profit sharing is something much more than a pension plan: it motivates workers; it unites them to a lesser or greater extent with management in the pursuit of common goals; it facilitates change in a company; it also curbs inflation and it does not add to the cost of items.

If there is no profit, there is no profit sharing; it is only if additional profits are made that they are shared. Also, in many cases, it provides for ownership in the company by the workers and this helps to achieve the points I have just mentioned.

It seems to me that in Canada there is a widening gulf between management and workers. Profit sharing is one of the bridges that can be used to address this problem. Perhaps what we face is, are we going to follow the British example of a separation of management and labour or are we going to follow Japan?

We have found that governments in Canada are most interested in profit sharing in what it can do for the economy, for efficiency

and for increased quality. We have received very serious requests for information from the federal government, from the Ontario government--I believe one is going on right now--and from the British Columbia government. I am sure other governments are equally interested.

A very important point we would like to make is that the health of the economy underlies all pension plans. If the economy fails, all pension plans fail and profit sharing is one of the items that helps to stimulate a good economy and provide efficiency and competitiveness.

In closing, I would like to make an appeal. In improving the barnyard, don't kill the goose that lays the golden eggs.

I would like to call upon Mr. Sheldon Lush to speak for a few minutes.

3:10 p.m.

Mr. Lush: Gentlemen, I am the president of Supreme Aluminum Industries, a medium-sized company of 400 to 500 employees. We are privately owned and have been in business for 62 years. We have been practising profit sharing for 34 of those years.

We have continued to grow over the years despite the recent offshore competition from Third World countries and we give a great deal of credit for our continued growth and prosperity to our profit-sharing plan. We share 30 per cent of our pretax profits with our employees and this is shared a third in cash, a third into our deferred profit sharing plan which is used to purchase company stock and the remaining third goes into a retirement fund.

Over the years, we have calculated that when an employee of ours retires after 20 years in the plan he takes with him between 65 and 70 per cent of his last four years of earnings in the way of a pension. Ours is a money purchase plan in as much as he takes the benefits from his retirement and buys an annuity which supplies him with 65 to 70 per cent of his earnings. Unfortunately, we haven't arrived at that stage where we have been able to index it.

As a council, we do support the desirability of a guaranteed retirement program for everyone. There is no question about that. We hope that when you people complete your deliberations you will see your way clear to making that one of the stipulations in an approved deferred profit-sharing plan. Whatever you decide upon as the minimum required, just include the deferred profit-sharing plans in that so that we too can meet that minimum requirement. In virtually all cases that we as a council know about, our profit sharing far exceeds any minimums we anticipate you people are going up with.

Your own government employed Dr. Don Nightingale, professor at Queen's University, three years ago to do a survey on profit-sharing plans throughout the province. He took 83 companies with profit-sharing plans and 83 comparable companies with no profit-sharing plans in similar industries. His published results show conclusively that productivity is substantially better in the profit-sharing companies.

Superior industrial relations exist. There is reduced absenteeism. Communications between management and employees are much better, and the employees get a much better understanding of what business is all about because of these communications. It broadens the ownership base of our industrial society which, as a capitalist, I feel is much too closely held today. But through a deferred profit-sharing plan, through ESOPs, there is an opportunity to broaden this ownership base.

Last but not least, particularly in an environment such as we are in today, it supplies a capital for expansion. That is a very important factor. On top of everything else, profit sharing is noninflationary. I hope someone will ask me why later on.

Mr. King: Gentlemen, prior to my retirement four years ago, I was the vice-president of personnel at Simpsons-Sears. We had a profit-sharing retirement fund at Simpsons-Sears from the beginning of the company in 1953. For quite a number of years, the money that built up in the trust fund was the entire amount of money with which a person could buy an annuity and have retirement income.

A few years ago we were considering the problems of inflation, and we changed to a fully funded pension plan and a deferred profit-sharing plan over and above that, so that the employees might have the opportunity of having a sum of money at the time of retirement with which to cope with inflation. It would be out of the profits of the company, so we were not in any way jeopardizing the financial future of the company by some plan of indexing.

I could tell you that fund, today, is very reassuring to the employees at Sears; it is reassuring to them to know that they have this extra sum of money in addition to a good pension plan. I am concerned that in all of our deliberations with regard to pensions, we do not exclude deferred profit sharing as being a very viable alternative to any kind of pension plan.

Let me speak for a moment about Grand and Toy, a company with which I am sure you are all very familiar. Twenty-six years ago, when Grand and Toy were 74 years in business, they went to Mercer's because they had people retiring, and they had no retirement income from the company to help their retired employees with.

Mercer's took all the data--the ages, the salaries, all of it--and said, "This is what it is probably going to cost you, on average, to fund a pension plan for Grand and Toy employees." The company threw up its hands and said, "There is no way we can afford it." So they went into a deferred profit-sharing plan in which they decided to share 20 per cent of pretax profits with employees.

The plan is made so that each employee gets one point for every $100 of income up to $30,000, or 300 points. They also get three points for each year of service. They take all these points and divide them into whatever the pot turns out to be, and that determines how much money each employee will get put into the trust fund per point. That started off in the early days at about $2 per point. Today, it is $16 per point.

Let us take an example of an employee who is making $20,000. He gets 200 points for his earnings, and he has been there 20 years, we will say; so that is another 60 points. Therefore, he has 260 points. At $16 a point, he is getting a fair sum of money on his behalf put into the trust fund.

I can tell you, and you can check this with Grand and Toy, the sums of money that Grand and Toy employees are retiring with, with which they can buy an annuity, exceed whatever they would have got had they gone to a pension plan 26 years ago. So it has been good not only for the employees in terms of retirement income but also for Grand and Toy. They have been a very progressive, solid company, and I do not have to tell you that. Everybody knows the company well.

I can refer to another company that is highly respected, Dominion Foundries and Steel Limited in Hamilton, where the majority of their people are long-service employees. We had a presentation by Dofasco, very recently, on preretirement counselling, and we were amazed at the amounts of money these people are retiring with, in terms of the amounts that have been established in their trust fund.

So, gentlemen, I am saying that deferred profit-sharing plans can provide a very viable alternative to pensions and, at the same time, can do the things which Mr. Lush and Mr. Welch were talking about in terms of stimulating the economy, making better employer relations, better communication and more enlightened people in terms of economic education.

Mr. Welch: Mr. Brown, would you like to speak?

Mr. Brown: I would like the committee to know that we have made a previous presentation. A copy of the submission is in your hands, Mr. Chairman. In the recommendations of the select committee, and in the recommendations of the Royal Commission on the Status of Pensions in Ontario, there is very little mention of the fact that deferred profit-sharing plans also provide retirement incomes.

As Alec King just said, there are alternative methods of supplying a retirement income to people, and deferred profit sharing is one of them. I think what we have always felt was that deferred profit sharing, especially for a small and medium-sized firm, was an affordable way of doing it since the money does not enter the cost factor of doing business, it comes out after everything has been paid and there are profits to put aside. Then the profit pie is sliced up and becomes part of a retirement income plan. I think this is what we are emphasizing, and what we are promoting is a profit sharing plan.

3:20 p.m.

I might add that in the last two years we have added to our ranks about 90 new firms and there is continued interest in this type of method of providing a retirement income. One thing that can be said about this way of doing it is that it gives the business man an opportunity to go to his employees on a regular basis and

talk, not only about the plan, about how the funds have performed, but also about how the company has performed. In effect, it gives them an economic lesson once a month, once a quarter or whenever he goes.

With a pension plan, the same kind of communication does not take place. A man gets a pamphlet, he learns about his pension plan and nine times out of 10 it is forgotten about until he leaves the company, either before or after retirement. We hope that in the future, governments, either Ontario or Canada or wherever, will provide some kind of incentive to firms to install deferred profit-sharing plans so that this way of providing retirement income on an affordable basis could be more universal than it is.

You have to remember that in the kind of profit-sharing plans we are talking about, and this is the basis of our philosophy, a profit-sharing plan, to be of any motivational use, has to be over and above good wages and benefits. That means if you look at the competitive situation in your own industry, and you are paying their wages and their benefits, profit sharing, to be motivational and an incentive for increasing productivity, has to be over and above that. We preach this kind of philosophy to those people who set up profit sharing plans. We think it is a good way to provide retirement income and, certainly in the more successful companies, it is probably a better pension than would ever have been provided otherwise.

We have already heard about Dofasco, Sears, Supreme Aluminum. There are also Canadian Tire, Lincoln Electric and many others. As a matter of fact, there is a very small one that maybe nobody has heard of, Rumble Equipment in Mississauga. Not only does it have a profit-sharing plan, but also the company is owned entirely by employees and we think this is the ideal way to go.

I think that is basically what we want to say. We want to make you aware of the fact that this is another vehicle, and maybe a very good vehicle, for providing retirement income.

Mr. Welch: Mr. Chairman, just to sum up: A real concern is that if CPP or PURS is mandated and profit sharing is not taken into account, many small profit-sharing firms will have to terminate their profit-sharing plans. They will not be able to carry that on in the face of the extra financial burden.

We are requesting very strongly that if either of those two or any type of pension burden is mandated, you recognize profit sharing as an alternative and that a company with a sufficiently viable profit-sharing plan be excluded or exempted from PURS or the increased CPP, whichever it is, or any other plan you may eventually decide.

That is our concern, Mr. Chairman. We would be very pleased to respond to questions.

The Vice-Chairman: Thank you very much, Mr. Welch. I am sorry I have to interrupt the proceedings for just a few moments, if you will bear with us. I think I now understand why the chairman absented himself from the balance of the proceedings this afternoon. For the first time since our committee started its

deliberations last summer we have had a mixup in schedules. Apparently, some arrangements had been made with the Financial Executives Institute Canada, which has also been scheduled this afternoon at 3:15 for a hearing.

I am aware of the fact that there are openings on Wednesday and Thursday afternoon in which we have no delegations scheduled. However, because the Financial Executives Institute understood they had this time slot, they have brought some of their people in from out of town, from as far away as Ottawa, and on that basis I feel the committee should endeavour to try to accommodate the other group, while not cutting short this delegation nor denying that other group ample opportunity to make its presentation. It may mean, if you are agreeable, we will have to extend our time past 4:30 to perhaps five o'clock.

Mr. Mackenzie: I move they should be heard.

The Vice-Chairman: Are we agreed? Fine, thank you.

Mr. Welch, we don't want to cut short your presentation, but we do have this problem. We are certainly open now to comments and questions and we will carry on. We will try to get to the other delegation at four o'clock if it is not going to impede a full hearing of your presentation.

Mr. Welch: That's fine.

The Vice-Chairman: Just before we proceed, then, if I might, Mr. Welch, could you indicate to the committee a little bit about your organization, when it was formed, your membership and generally the extent of your council? From its name, it appears you operate across Canada and have members from all parts of the country, but could you perhaps elaborate for the benefit of the members of the committee?

Mr. Welch: Certainly. I will ask Mr. Brown to respond to that. He is our president.

Mr. Brown: The organization was formed in January 1970. It came into being shortly after legislation came into being in Canada in 1968 on deferred profit-sharing plans. Prior to that, most of the profit-sharing companies in Canada belonged to the Profit Sharing Council of America. Since we had legislation that was peculiar to Canada, it was felt it would be much better to have a separate profit-sharing organization in Canada; so it was started up with about a dozen members in 1970. It has grown to 234 members. The employees covered in the 234 members number more than 200,000.

The council exists primarily to serve its members, which it does through a legal and legislative committee which keeps up with the tax provisions of the deferred profit-sharing plans. We provide motivational literature to members in the form of posters and payroll stuffers. We provide literature on profit sharing to members or nonmembers. We hold four meetings a year, three of which are seminars; our latest one was on January 21 on profit-sharing plan design and it was attended by 50 people. That's about it.

3:30 p.m.

The Vice-Chairman: Just before we come to Mr. Mackenzie, could you indicate what percentage of your member companies would have fewer than 250 employees?

Mr. Brown: The percentage with fewer than 250 employees?

The Vice-Chairman: Or even moving further down the scale; what I'm trying to get at is whether your membership would be representative of small business. I know you have companies like Mr. Lush's and Dofasco and some of the larger and medium-sized companies. But are you representing--

Mr. Brown: Basically it's small and medium-sized--below 250. Yes.

The Vice-Chairman: I'm sorry. You do?

Mr. Brown: Yes. We represent small and medium-sized companies.

Mr. King: That would be the majority.

The Vice-Chairman: Would that take it down into the range of companies with as few as 50 or 75 employees?

Mr. Brown: Yes.

Mr. King: Down to 15 and 10.

The Vice-Chairman: I see. And actually the majority of your membership are in that area rather than the large area.

Mr. Mackenzie: I'm wondering if you can give us some idea how many workers would be covered by profit-sharing plans now in relation to the work force. I'm thinking, quite frankly, of the figures from the small businessmen's association, which indicated that about one per cent of the respondents were covered by profit-sharing schemes. How would it relate generally?

Mr. King: We think there are about 500,000 Canadians who are members of deferred profit-sharing plans. That might be stretching it a little bit, but it's somewhere up there. I remember in 1972 we did a survey; there were about 250,000 employees represented by deferred profit-sharing plans at that time, and I'm saying there has been a fair increase since.

Mr. Mackenzie: That's against a work force of what? How would that work out percentagewise?

Mr. King: Lord, I don't know what the total work force is.

Mr. Lush: One of the things I think there may be some misunderstanding on--none of us made the point--is that our council supports and encourages only broad-coverage profit-sharing plans. There are many top-hat deferred profit-sharing plans which smaller businesses put in strictly for the benefit of their owners. We

don't advocate or promote that type of plan at all. It's strictly for companies that are willing to share their profits among everyone with minimal eligibility requirements. That is why, when you speak of deferred profit-sharing plans, you can go into literally thousands and thousands of top-hat deferred profit-sharing plans which we don't associate ourselves with.

The Vice-Chairman: Can you expand on what you mean by top-hat profit-sharing?

Mr. Lush: If Supreme Aluminum, if you will, wanted to put in a deferred profit-sharing plan, we could put it in for the benefit of, say, the five top executives, and we could be registered by the Department of National Revenue as having a deferred profit-sharing plan. But we don't advocate, promote or encourage that type of plan.

The Vice-Chairman: So you're really not getting to the rank-and-file employees with that?

Mr. Lush: No. We stay away from that.

Mr. Van Horne: Have any employees ever been hurt by this? I mean, have you ever had any bad experience, and if so, could you tell us what it was?

Mr. Lush: Employees?

Mr. Brown: Have any employees ever been hurt by the fact that a profit-sharing plan was in existence?

Mr. King: There are profit-sharing plans that have been discontinued. To that extent, employees who have had their hopes buoyed up by a profit-sharing plan would certainly have them put down again, and they feel pretty badly about it, I'm sure.

Mr. Brown: You don't think they were hurt financially, were they?

Mr. King: Only to the extent that the plans didn't work out the way they had all expected or hoped they would.

Mr. Van Horne: They didn't suffer any financial loss?

Mr. King: No. There's no way that an employee who makes a contribution to a profit-sharing plan will ever lose his money, because the money is in a trust fund and the company has no way of ever getting its hands on it.

Mr. Mackenzie: The problem is that we're dealing with somewhere less than 10 per cent, probably.

Mr. King: I would say so.

Mr. Mackenzie: Have you any idea, to take the Dofasco profit-sharing plan as an example, how their plan would compare at retirement with a funded pension plan, or even the pension plan that is in place, for example, at Stelco?

Mr. King: I cannot compare it directly with Stelco, because I don't know their plan, but employees who are retiring now from Dominion Foundries and Steel are retiring at close to 70 per cent or more of pre-retirement earnings, which is one hell of a good retirement income.

Mr. Mackenzie: In making this presentation, I take it that while you don't want to be left out of the picture, you are not arguing against the mandate of this committee, which is to make recommendations to deal specifically with the adequacy of pensions, and what we come up with?

Mr. Welch: We don't want profit sharing to be an unwitting victim of those changes. As I mentioned, the healthy economy underlies any pension plans, and profit sharing is an important part of that.

Mr. Mackenzie: Do you see profit sharing as being in the same category as private pension plan arrangements, which may be the topping in terms of the public plans?

Mr. Welch: Yes, there are companies, especially small ones, that feel they cannot afford the yearly cost of a pension plan; they can in good years but not in bad ones. Whereas if they have a profit-sharing plan, it is affordable, and it is contributed towards in years in which they make a profit. Because it is there, we believe it increases efficiency and the other things that go towards making a company successful, through the ownership of the workers. So, yes, I think it certainly does.

In very large companies, you usually find a pension plan underlying the profit sharing where it is a purely motivational thing to increase efficiency and success. In small companies, I think there is a real danger that if some form of increased pension burden is mandated and profit sharing is not taken into account, you are going to find they will have to terminate the profit-sharing plans.

Mr. Brown: Some companies have pension plans and a cash profit-sharing plan, some companies have a pension plan and a deferred profit-sharing plan as a supplementary retirement income plan, and some companies have deferred profit-sharing plans as the sole retirement income vehicle.

Mr. Brandt: I believe part of my question has been answered, Mr. Chairman. I gather the main thrust of what you gentlemen have said is that you do not want pensions to be reformed in an expansive way so that they edge out or elbow out the opportunity for profit-sharing plans. If I understand your presentation, that is in part what you have said.

That being the case, there are definitely a number of companies that will not find themselves in a position where they can offer profit-sharing plans--which I endorse, by the way; I think it is an excellent concept. That being the case, that we have a large number of people out there who would not have the availability of or accessibility to a profit-sharing plan, who are not covered by pensions, and with your underlying concern about

whatever we do being affordable, and having looked at some of the royal commission studies and so forth, do you have any comments to make as to the directions you would like to see this committee taking?

I realize that is shifting it a little from what you came here to talk to us about, but I think it is important that you look at not only the area you want to protect, which is profit sharing, but at the area we have to address, namely, those people who are not covered and who are unlikely to be covered under profit sharing or under existing pension legislation. Do you have any comments on that?

Mr. King: We are all for assuring better retirement income, as you are.

We are just as concerned as you are about providing adequate retirement income. What we would like to see, I think, is that when this is written, a deferred profit-sharing plan be considered as an alternative, just as some pension plan may now be a partial alternative, however good or bad it may be; at least it will be considered.

In other words, as long as a deferred profit-sharing plan would provide as much retirement income for employees as you are talking about in PURS or the CPP, to that extent, a company should have the choice of going to a deferred profit-sharing plan or putting in the kind of pension plan you are talking about; that is really all we are saying. Let us just not exclude deferred profit-sharing plans from these considerations.

3:40 p.m.

For example, I helped a company put in a profit-sharing plan last year. It is the first deferred profit-sharing plan of a trust company that I know of in Canada; they are also in the life insurance business. They are in Saskatchewan, and when they began to read about the changes in the pension legislation, they were a little upset that now that they have put in this deferred profit-sharing plan, they are going to have to abandon it and put in a pension plan. That illustrates what we are talking about.

Mr. Brandt: Mr. Chairman, to carry on for a moment, I would like to back up to some earlier comments by you, Mr. Lush. You were talking about your own company providing 30 per cent of profits, before taxes, to employees as a means of profit sharing; you broke it down into three 10 per cent categories. I wonder if you could review those categories again for me. Then I have a follow-up question.

Mr. Lush: Thirty per cent of our pretax profits is set aside for a profit-sharing pool. One third, or 10 per cent, is paid out in cash. One third goes into a retirement fund, which is invested in a wide cross-section of bonds and securities, and it is a trust fund which is completely owned by the employees; the company can never touch it. The other third goes into a deferred profit-sharing plan which falls into the deferred profit-sharing legislation but which is invested entirely in company stock. In

this way, we encourage the employees to become owners of the company through the deferred-sharing plan, and we set aside, through an independent trust company, a further retirement benefit.

Mr. Brandt: All right. You are going to be very pleased with this next question, I think. Could you perhaps elaborate or expand on your comments with respect to this kind of measure being noninflationary?

Mr. Lush: Profit is what is left over after all the costs of making a product are calculated. Profit is the difference between the cost and the selling price. So profit sharing does not contribute to the cost factor. It is part of the residue that is left over. Let us say a product is sold for $1. Its cost, including material, labour, overhead, et cetera, is 90 cents. Then we have a 10-cent profit factor, which is taxable. The first thing that comes out of that, in all of our cases, is a contribution to profit sharing. Profit sharing does not form part of that 90 cents, nor is it added to the 90 cents.

A lot of the objections of capitalists, of which I am one but an enlightened one, to profit sharing are that they feel we are taking something away from the owners, from that 10 per cent profit factor. But we who have been in the business of sharing our profits, find that that 10 per cent is increased; so what is left after sharing is still greater than that which existed before. So the very fact that profit sharing comes out of profits, and profits do not contribute to cost, is what I meant to say. It does not inflate the selling price.

Mr. Brandt: Could you give us some indication of what the requirements are for a new employee being hired by your company to qualify for your profit-sharing plan?

Mr. Lush: One year of continuous service.

Mr. Brandt: Full-time or part-time?

Mr. Lush: Full-time.

Mr. King: I would just like to mention that in the Sears plan, every part-time employee is eligible to join after 1,600 hours of accumulated service.

Mr. Brandt: Over any period of time?

Mr. King: Yes. It usually happens within two and a half years.

Mr. Brandt: Could you answer the question with respect to the matter of part-time or casual help? If you have those kinds of employees, do you still have the one-year period?

Mr. King: We have a probationary period, which we consider to be three months. If an employee measures up to certain standards that are acceptable to the company by way of productivity, then he moves into the regular work force.

Mr. Brandt: What happens to one of your employees after a period of employment? Just to take an example out of the air, take someone who has been there for five years. They have this package after one year, and they obviously have some accrued benefits, along with some shares and all the rest of it. How do you handle the portability of those assets at the time of severing employment between your company and that individual?

Mr. King: First of all, let's look at our deferred profit-sharing plan, which is company shares. As a private company, the share value is not listed on the market.

Once a year our auditors establish, by a predetermined formula, the value of the shares which is going to be used throughout that one-year period. So any employee who leaves for any reason, for retirement or whatever, cashes in his shares and takes the money from that. It is portable. He either puts it into an annuity or an RRSP. If he wants to take it in cash, of course, it becomes immediately taxable in his hands; so very few people do.

The retirement portion of the fund, which is also in a trust company, must be paid out to him within 60 days of his severance from the company. Again, that can be used to purchase an annuity or an RRSP, or he can take it in cash, on which he has to pay a lump sum tax.

The company can never get its hands on any of those funds. They both go into separate trust funds. The trust funds, by the way, are managed by six trustees, three of whom are appointed by the board of directors, and three of whom are elected by employees.

Mr. Brandt: If you had a capitalistic employee who wanted to accelerate his stock purchase by taking the cash and requesting the purchase of additional shares, is that kind of flexibility available?

Mr. Lush: Yes, he can do that, but it does not go into the trust fund. With his own money, he is allowed to purchase shares in the company up to the extent of 50 per cent of his annual earnings, if he can afford it. But those shares are given to him directly and do not form part of the trust fund. After all, he is paying for those shares with after-tax moneys. But we offer that opportunity.

Mr. Brandt: At the time of severance between your company and an employee, if you have a dispute--and you would be a pretty fantastic company if there were never the least disagreement at the time of the employee's leaving as to the value of the shares or the value of his benefits up until that point--how do you arrive at some form of adjudication that is acceptable to your employees?

Mr. Lush: I do not know. It has never happened.

Mr. Brandt: It hasn't?

Mr. Lush: No, never. We have always published what the going rate of the shares is. On March 1, when the value is established, that becomes public knowledge and everybody knows that

if they leave throughout the year, that is the price they are going to get for their stock. When anybody leaves, they usually wait until after the year end to get the new valuation after the year is complete.

Mr. Welch: I might just add one point in answer to one of the questions asked. It is interesting that profit sharing is a money purchase plan, which the Haley commission recommended first. It is fully funded because there is no unfunded liability in the deferred profit-sharing plan. The investment is in the private sector, and it is fully portable. Even the tax sheltering is portable, because they can roll it into another profit-sharing plan, or they can roll it into a pension plan or a registered retirement savings plan, which is usually the most practical. I just thought those were interesting points.

3:50 p.m.

Mr. King: Perhaps we should mention vesting, because that's a part of what you had in mind, and the majority of deferred profit-sharing plans fully vest within five years.

Mr. Welch: Many vest within one year.

Mr. King: Many vest immediately.

Mr. Welch: --plans as soon as they're in, not as soon as they're--

Mr. Riddell: Mr. Brandt suggested that not all companies could use this profit-sharing approach. Is that true, or could most companies adopt this approach if they set their minds to it?

Mr. Brown: On the profit-sharing?

Mr. Riddell: On the profit-sharing.

Mr. Brown: I gave you the impression that some companies could use it?

Mr. Riddell: No. Mr. Brandt in his question.

Mr. Brandt: Either that they not wish to, or perhaps it isn't applicable to their (inaudible) business.

Mr. Welch: I would think that almost any company could use it. There are even cases in North America where it has been used by a nonprofit organization by setting standards, and if those standards are better they share the difference. My opinion is that almost any company would benefit from a profit-sharing plan.

Mr. Brown: I was wondering if the question was: Is profit-sharing almost enthusiastically accepted by any businessman, or are there people who just don't accept it? Was that part of the question?

Mr. Riddell: You could perhaps answer that question, too, now that it has been posed.

Mr. Brown: Shelly Lush has called himself an enlightened capitalist. I guess what we're talking about here are maybe managers and owners who are innovative, who aren't locked back into the early part of this century and are forward-thinking in their dealings with their employees as far as business is concerned.

By and large, if you're thinking in terms of Drucker's theory X and theory Y, I think it's theory Y managers who were people-oriented, and you'll find that this kind of owner or manager is more likely to go in for this kind of philosophy than the theory X type of manager, although we had been able to convert some theory X managers to believe likewise that this is a good way to go.

Mr. Lush: It disturbs us to think that 92 per cent of the productive wealth of this nation is owned by less than six per cent of the population. That's not what we consider to be capitalist; that's not the way we think capitalism should work.

Mr. Mackenzie: You want to be careful. (inaudible) almost won't be able to call you a capitalist. (inaudible) we found out.

Mr. Lush: I've been called other things than a capitalist, I'll tell you.

Mr. Riddell: If we are to avoid government-mandated pension plans--I trust that you people would probably be in favour of that if you had your druthers--how do we motivate employers to adopt some kind of pension plan, whether it be your profit-sharing plan or whatever kind of pension plan it may be? The reason we're sitting here now is that they haven't done it in the past, and so now governments are forced to do something.

I dread the thought of having to mandate pension plans on employers, but it looks as if we are going to have to do it unless employers can be motivated in some way to put into effect their own pension plans. Now, if we're going to leave it to the private domain, how do we do it?

Mr. Lush: We made a submission to the Haley royal commission in December 1977--I hope a copy of it is available to all of you--and on page 15 we made a suggestion as to how such an objective could be achieved. What it really says is that the companies that set aside part of their profits for distribution among their employees through pension funds or through deferred profit-sharing plans would get a special tax consideration on the amount they set aside.

Mr. Riddell: Do you think that is enough to do the job? Do you think most companies would--

Mr. Lush: Since there is no special consideration now for anything that is set aside, we think it would be a big step in the right direction, and that spells out the details of it. I would just confuse you if I were to try to read it. It is on page 15 of the report we gave to the Haley commission.

Mr. Riddell: One last question: Is the one-third, one-third, one-third application of your profit-sharing plan rigid?

Or can the employee say, "I would rather take two thirds in cash and put the other third in--"?

Mr. Lush: No. We have trustees. The trustees decide exactly how much to set aside. There is a little bit of flexibility. In other words, we don't start giving out part shares. So the trustees will decide how the total pool is going to be distributed. But, historically, they have never given out more in cash than has ever gone into the other two; cash is the side that has always suffered the most from any unequal distribution.

Mr. Brown: There are plans that do operate with the kind of flexibility you are talking about, where the employee does have a choice as to whether to take cash or go into deferred profit sharing. And some plans are designed this way from the belief that the younger groups are generally more motivated by cash than they are about something that is going to happen in the future.

Mr. Haggerty: In relation to the terminology used as a capitalistic employee, in your council association, how many employees and how many firms would there be, union or non-union, that belong to this particular group of profit sharing?

Mr. Welch: That have a union?

Mr. Haggerty: Yes. For comparison, non-union and union.

Mr. Welch: About 30 per cent union.

Mr. Bochen: That is substantially higher, maybe 50 per cent higher, than the number of firms in the United States that have profit-sharing plans and are unionized.

Mr. Haggerty: When you talk about the United States, what is the proportion of firms that provide this to employees?

Mr. Brown: Three hundred thousand firms in the United States.

Mr. Haggerty: Three hundred thousand. What is the largest?

Mr. Brown: The largest firm?

Mr. Haggerty: Yes.

Mr. Welch: AT and T and Sears Roebuck.

Mr. Brown: Procter and Gamble.

Mr. King: More than 40 per cent of the banks and trust companies in the United States have deferred profit-sharing plans.

Mr. Haggerty: I would like to be a bank employee to get those reasonable affordable interest rates to purchase a home.

Mr. Gillies: This gentlemen here, Mr. King, mentioned that part-time employees in Sears can participate in the plan after 1,600 hours of service. Is this general throughout the firms you

deal with, or is Sears the exception? We feel we have a coverage problem that very much impacts on part-time employees, and I would be interested to know what arrangements there are in the general sense for part-time employees in profit sharing schemes.

Mr. King: The retail industry, of course, has probably more part-time people than any other industry by the very nature of the business. I believe the plan the Bay has involves part-time people as well. Its plan is a little different. It is certainly a kind of profit-sharing plan. The employee puts money in and the company puts in a percentage of what the employee puts in, perhaps more, depending on the profits of the company. But I am quite sure the part-time people are eligible to join after a similar number of cumulative hours. So I would think that in the retail industry, the companies that have profit sharing would include the part-time people.

Mr. Welch: Gentlemen, I know we have to finish, but we heard a lot about large companies and large profit-sharing plans. May I speak for a very small company. There was a young man who came out from Holland to Canada in the 1930s and had a very hard time initially. Eventually, he started his own little printing company. In a speech he gave, this is partially what he said:

"I am a little guy, a small businessman. I wish I was a professional speaker, because I wish I could tell you in the strongest terms possible what has happened to my company since profit sharing. Remarkable changes have taken place. People in the company work with me now; they do not work for me. They are sincerely interested in my business. I really believe they are. They work harder. They seem to be working with a sense of purpose and a sense of pride. They must be working harder because we are handling more business with fewer people."

I would like to leave you that book. It is about a number of Canadian profit-sharing companies, as well as about profit sharing.

4 p.m.

The Vice-Chairman: On that positive note, Mr. Welch, we will conclude and thank you very much. It has been a most interesting and informative presentation you made this afternoon. Thank you very much, gentlemen.

FINANCIAL EXECUTIVES INSTITUTE CANADA

The Vice-Chairman: The Financial Executives Institute Canada: Mr. Ken H. Smith, president; Mr. Cecil W. White, vice-president, Metropolitan Life; Mr. William E. Hewitt, manager, pension investments, Imperial Oil Limited.

On behalf of the committee, I do apologize for the mixup in scheduling. I think there was an error on our part, and we regret any inconvenience caused as a result thereof. I hope we can fully accommodate you by extending our hearing period this afternoon, and we are looking forward to hearing from you at this time.

Mr. Smith: Mr. Chairman, it happens in the best of families. We are quite cognizant of that.

We do appreciate very much your consenting to hear us again. We were here on August 19 last and had a very enjoyable session as far as we were concerned. I hope it was enjoyable, informative and worthwhile so far as you were concerned.

Just in passing, we were very interested observers to the previous session. We thoroughly enjoyed that and felt great empathy towards them. It was interesting when they were talking about the number of firms that are represented in their council. Both Cec White and Bill Hewitt are representatives of companies which also have profit-sharing plans which are probably not represented on their council; so there are probably a lot more profit-sharing plans than are perhaps indicated in their presentation to you.

To get on to ours, first of all I would like to mention that I think we covered in reasonable detail the suggestions we had pertaining to the private pension plans per se. Since then, of course, this committee has published its first report on its deliberations, which I believe centres on things that may be introduced and implemented within Ontario and would not have impact outside of Ontario, and that your purpose now is primarily to be concerned with various factors within the pension program that require liaison or agreement with other bodies, namely, other provinces and the federal government.

We would be very pleased to comment or respond to questions on any aspect of the pension issues, particularly our response, if you wish, to your recommendations in your report. We would also like to talk to you about a paper we have developed in relation to social security in Canada, a copy of which has been given to you, and also in respect of what we call our safari, which is that Cec White and I toured all 10 provinces and met with senior officials in each province and discussed with them our understanding of employers' views in respect of pension issues and elicited from them their views. We had very fine informal discussions with these people across Canada.

The Vice-Chairman: We would be interested in hearing from you briefly on each of those topics. I might point out to you that, as resource material, the committee has already drawn on the proceedings of your recent conference that was held at the Skyline Hotel. We found some very useful information in there that was brought forward from some of the papers given by your keynote speakers.

I am sure we certainly would be interested in hearing from you as to your observations on our interim report and about the results of your findings in your visits across the country.

Mr. Smith: In that event, Mr. Chairman, perhaps we could look at these aspects in the order of the social security paper, our safari as we call it, and then your recommendations. I would like to suggest that Cec White present our views in that area.

The Vice-Chairman: Mr. Gillies, do you want to ask a question before Mr. White proceeds?

Mr. Gillies: No, Mr. Chairman. I just wonder, if the

presentation is going to be split into those two areas, might we on the committee have an opportunity to question them after the first part of the presentation?

The Vice-Chairman: I think that would be appropriate.

Mr. White: Mr. Chairman, you have copies of this paper on social security in Canada. Just to give you a bit of background as to how it came into being, when we appeared before you some months ago in the autumn of last year, we were discussing a paper related to improvements in registered pension plans. While our group was putting that paper together, we developed a rather strong feeling that this was only one wing of the bird, so to speak, and we really ought to develop the other wing relating to social security; that is the origin of this paper.

I will go through it rather quickly and try not to bore you with things you are very familiar with. I will not review the details of our social security arrangements in Canada. I am sure you know those off by heart.

The point that came up in the first discussion this afternoon relating to the future level of payroll taxes to support the Canada/Quebec pension plan as it now exists is dealt with at the bottom of the first page and the top of the second page. That is where the eight or nine per cent comes in for the current level of benefits.

The second page deals with some points related to those costs and the fact that there is a great lack of familiarity with those figures throughout the population. I think it is a service when those things are brought out for attention. There are a few comments on the structure of the CPP as a piece of social legislation.

Over on page three we talk briefly about GIS, the proceedings of the National Conference on Pensions and the needs of the present elderly. The government at that time seemed to assume responsibility for them and was going to tackle that through GIS. I mention that because we will have comments on that when we report to you on our safari across Canada.

4:10 p.m.

When we come to the bottom of page three, which is perhaps the more interesting part of this document from your point of view--social security in other countries--we make the point that Canada is in the fortunate position of being able to observe social security in the United States and in other countries.

The American program is approximately 30 years older than the Canada pension plan, and the two North American programs are roughly comparable and operate in similar societies. This means that Canada can observe social security in the United States today and gain important insights into the development and financial performance to be expected under the Canada pension plan and into the problems that will be faced by the Canada pension plan 30 years down the road.

The US social security system started in 1935 with contributions of two per cent of covered earnings, one per cent each from the employee and the employer, as a fairly austere system, and it just grew. The contribution rate is now 13.3 per cent, and the social security fund is expected to go broke as early as 1982.

That is fairly strong language, and I apologize a little bit for it. You will see why I used it, though, in the next paragraph, because it comes from a direct quotation from Mr. Richard Schweiker, Secretary of the Department of Health and Human Services in Washington and a responsible official. In the next paragraph I quote him as saying:

"Changes are needed to keep the system from going broke. If we do nothing, the system would go broke as early as the fall of 1982."

I think what he means obviously is that under present arrangements, at that time anyway, it would have run out of money; the cash flow would have disappeared. Obviously they can give attention to that just as we have to give attention to the Canada pension plan.

However, I do develop the idea towards the bottom of that page that the social security program in the United States is in some trouble, and the taxes supporting it are reaching what many consider to be an unacceptably high range. It is very evident to younger people in particular in the United States that for the same money they pay in social security taxes they could step out into the marketplace and buy larger pensions. It is only the compulsion of the act that makes them make those contributions.

Similar trends have emerged in European countries. Inflation coupled with slow economic growth in recent years has resulted in social security expenditures rising faster than revenues. Looking at seven western European countries, at the top of page five, some points from these seven countries: in six of them, contribution rates have been increased during the past three years without any corresponding increases in benefits; the earnings ceiling for contributions has been raised higher than the earnings ceiling for benefits in Belgium, and this relationship has been a feature of the social security systems in Sweden and Switzerland for some years.

The benefit formula has been modified to reduce the starting pension at retirement in West Germany and in the United States. Indexation for benefits in the course of payment has been reduced in the United Kingdom, France, West Germany and Belgium. Nearly all countries will face increased costs for social security in the future as the ratio of retirees to workers increases. These increases will be due to the post-war babies attaining age 65 and over, in addition to general decreases in birth rates and increases in longevity.

As one example, West Germany expects its combined employer-employee contribution rate to rise from 18.5 per cent to 32 per cent by the year 2030. In 1980, Swedes paid payroll taxes to

support their system amounting to 20.3 per cent. In addition, the Swedish system is subsidized from general revenues by an amount equivalent to 3.6 per cent of payroll. That means in real terms the cost of the pension system is almost 25 per cent of payroll. In September 1980, young Swedish workers staged strikes to protest the enormous amount of pay withheld to support that nation's costly retirement system. Apparently the younger workers see themselves as taxpayers, not as future beneficiaries.

Drawing on that background, we then make a few comments about social security in Canada. The lesson should be obvious to our policy makers in Canada. Governments that expanded public retirement systems in other countries are forced to change the ground rules. Past commitments to the public are being revoked or modified. The working force today, or in the future, will not tolerate excessive taxation to fulfil costly promises made in the past.

It would be dangerous for Canada to embark on a massive expansion of the CPP when evidence abounds of the difficulties other countries are having with their more mature social security systems. People still attach importance to their right to determine what portion of income they should allocate between today's needs and tomorrow's retirement. I regard that as a fundamental human right.

A sound economy is a prerequisite for the payment of adequate pensions. The gentleman in the previous submission made that point. In economic terms, all pensions, public and private, require a willingness by the active workers to share some of the gross national product with those people who are currently retired and no longer contributing to the GNP. The pensioners' claims to shares of the GNP may be based on funding in advance of retirement, as in registered pension plans, or on legislative fiat, as in the case of the CPP and Old Age Security Act.

With sound funding, investment income provides a significant part of the benefits to pensioners. Pensioners' claims based on legislative fiat may face reluctance and even perhaps refusal by active workers to grant an appropriate share of the GNP to the pensioners if economic growth is not sufficient to provide for both the claims of the active workers and those of the pensioners. This kind of eventuality has already occurred in New York City, in other major metropolitan areas and a few states in the United States. I have attached some pages that are right out of Geoffrey Calvert's book dealing with the facts of those situations.

When the current population bulge created by the very large number of post-war babies passes into retirement ages, what will be the attitude of the smaller Canadian work force that will be expected to provide benefits for such a relatively large number of pensioners? Canada may then witness scenes in Ottawa similar to those enacted in Washington in 1981, where demonstrators protested proposed reductions in social security benefits, and in Sweden in 1980 when young Swedish workers went on strike to protest the exorbitant cost of social security.

Canada will have a very great need for capital at least until

the year 2000. Employee and employer contributions to private pension plans and other personal retirement programs are a very important source of investment capital for the development of Canada's economy. A large portion of all new capital, especially long-term capital, needed by industry in Canada and raised through new debt and equity issues is expected to come from private pension funds.

Under the present financing arrangements of the Canada pension plan, contributions to the Canada pension plan, after payment of current benefits and expenses, flow to the provinces where they are often spent on current expenditures rather than used for capital projects. Expansion of the Canada pension plan would inhibit the growth of private pension arrangements and hence limit their ability to generate funds to meet Canada's tremendous need for capital investment in energy, transportation, housing, industrial development, urban facilities, et cetera.

The large number of private pension plans in the current pension system results in considerable diversification in the investment of pension funds. This diversification has grown substantially in recent years as management of pension funds is increasingly assumed by small investment counselling firms.

A major expansion of the Canada pension plan involving the investment of contributions in the private sector--to offset the contraction of private investment capital flows that such an expansion would entail--would further concentrate control of Canada's capital flows in the hands of government.

Concerns have already been expressed that the Quebec government and the agency it set up to invest Quebec pension plan contributions are intent on exercising more direction over the private sector companies in which their funds have been invested.

A substantial portion of the responsibility of providing retirement income for Canadians is borne by governments through programs such as the Canada pension plan, old age security, GIS, spouses' allowances and various provincial programs like Ontario's Gains.

Private pension arrangements create diversity and balance in the provision of retirement income for Canadians. A major expansion of the CPP would severely reduce this diversity and cause future generations of retiring Canadians to become almost entirely dependent upon governments for their incomes. Such a dependence entails significant political and social consequences, including the potential loss of political freedom.

Governments should encourage the growth and funding of registered pension plans and other vehicles to save for retirement. Canada needs an overall retirement system in which everything fits together well from a strategic point of view. Two of the main facts facing Canada for the next 20 years or so will be the demographic trend towards an ageing population and a great need of capital for development. Both of these facts can be provided for by a strategy based on proper funding of pension plans.

Thank you, Mr. Chairman.

4:20 p.m.

Mr. Gillies: I think your brief, gentlemen, raised some very serious questions. I would like to go through it and ask a number of questions that occurred to me.

First, in your comparison of the US social security system with our situation here in Canada, you say that the contribution rate in the United States for social security has risen to 13.3 per cent of payroll. Is that to produce an approximately comparable level of benefit to what our workers are getting here in Canada?

Mr. White: The benefits cannot be equated dollar for dollar. The point we are trying to bring out here is not so much an equation of either benefits dollar for dollar, or contributions percentage for percentage. We are trying to bring out that all social security programs, wherever they may be instituted--and we happen to have a close neighbour who put one in in 1935--take many years to mature. It is a matter of decades until maturity.

The Canada pension plan will not mature for another 20 or 25 years; so we have the advantage of looking at one that was started in 1935 and is now approaching maturity. We can see the trend of the contribution percentages required to support the benefits being paid under that program. In a general kind of way you may expect a comparable pattern in Canada. That is all we are trying to say. As the Canadian plan matures, the cost is going to go up--as it sits right now, without any changes whatever.

Mr. Gillies: Some of the data you have given us are quite startling and offer some very unfortunate visions of what we might face down the road. I would like to pursue this and the examples you cited from the European countries.

You said, quite late in your brief, that one of your great concerns about any proposal to double the Canada pension plan contributions and benefits, would be that it could lead to a drying up of the capital available to business and industry; that it would concentrate more and more of the country's wealth into government hands. Did you see examples that would substantiate that concern in your study of the European countries you examined?

Mr. White: We looked only at the benefit packages and the contribution size. I have to admit that I have not personally studied the investment results of their operations in those countries.

I think you can draw our conclusions with regard to the investment results in Canada from our own situation. We know what is happening to the Canada pension plan contributions now, and what has been happening to them since 1965. We see no reason to expect that to change. Presumably you either raise the contributions to more fully fund the benefits that are in place at the present time; or, if you increase the benefits and force an even more rapid escalation of contributions, unless some dramatic change is made, the funding arrangements are going to go on as they are now.

Mr. Gillies: I read the brief from the Social Planning

Council of Metropolitan Toronto when they were here. I would be interested in your comments on their contention that the contribution mechanism for the Canada pension plan could be altered such that the contributions are progressive in nature. I wonder if you have any thoughts on whether that would alleviate any of your concerns. One of the great concerns that has been voiced in this committee has been that as it stands now, the Canada pension plan in a way is regressive.

Mr. White: It is very regressive. It is upside-down social welfare as it stands right now.

Mr. Gillies: The low-income worker makes a very disproportionate contribution. Do you have any comment on changing the Canada pension plan to a "progressive" funding formula, which I think some would argue would make it less of a pension plan and more of a social security plan, or taxation? Do you see any benefit to that?

Mr. White: In theory that can be done. I think, perhaps, in moderation, I would even support that.

Mr. McClellan: May I just ask a supplementary on that point? That is precisely what you are arguing against on page four of your report, when you are talking about Mr. Schweiker in the United States saying that the plan is going to go broke. The argument in the United States, and I suspect you probably know this, is whether social security would be funded entirely on the basis of payroll tax, in which case the payroll tax needs to be increased, or whether it should be funded out of general revenue in order to make it more progressive.

On the one hand, you were saying a few minutes ago that the plan is in serious trouble, because the option of going to general revenue has been ruled out by the Reagan administration on philosophical grounds, and now you are saying to Mr. Gillies that, on the other hand, you would support a more progressive means of funding the Canada pension plan, which means a reliance on general revenue as opposed to payroll deductions. You can't have it both ways.

Mr. White: When I referred to American social security on page four and said it was in serious trouble, I am sure I added that the Americans will have to make arrangements to find a way out of it, just as we have to make arrangements within the next few years to find a way out of the impasse that faces the Canada pension plan.

Mr. McClellan: That is what the discussion is politically in the United States.

Mr. White: That is their problem. I don't really see that as our problem. This gentleman asked me, "Could you make the contributions to the Canada pension plan more progressive?" I answered that in theory you certainly could. And I added--and this is only because of my nature--that I would not be against that. I happen to think the present form of Canada pension plan is more than a little unfair. I am going to retire in a couple of years,

and I won't have paid for 10 per cent of my Canada pension plan pension. Somebody out there down the road, younger than and I am sitting around this room, is going to pay for that.

Mr. Mackenzie: We weren't smart enough to tax you enough early enough.

Mr. White: That is right.

Mr. Gillies: If I may pursue this, Mr. Chairman: The point Mr. McClellan makes is quite valid. I am not, as a member of the committee, yet prepared to endorse greater taxation or inordinately greater taxation to finance the sort of program we are talking about.

I don't know if you have had a chance to see the two articles in yesterday's Globe and Mail referring to the situation both the Dutch and the Belgians finds themselves in. There was one quote in the article about the Belgian situation that is very much in keeping with what you have said. Apparently, Mr. Chairman, largely because of the demands of a growing social policy through the last decade in that country, the public debt in Belgium has gone from $21.5 billion in 1970 to $80.2 billion in 1981, and it now constitutes more than 56 per cent of the gross national product.

Before I am prepared to look very closely at a progressive fund basis for the Canada pension plan and/or doubling it, I will need to be assured we are not looking down the road at 56 per cent of Canada's gross national product being public debt.

I think you have a very valid point. I do not take your comments, which are very valid about that funding mechanism, as necessarily an endorsement of that other position put forward by the social planning council.

I believe when you were here to see us in our summer/fall session and you had some comments about PURS. I must admit I can't remember the exact sentiment you expressed, but I seem to remember it as being fairly favourable. Could you refresh my memory on that?

Mr. White: I have to admit I don't remember what I said about PURS at that time either. But we have had the benefit of the safari across Canada since then, if you don't mind my tossing that in too. Comments we got, particularly in Nova Scotia and I think in Quebec and perhaps other provinces, indicated that political leaders in those areas are very much interested in finding some mechanism, some convenient, easily administered, easily understood mechanism, by which people in general, people in the labour force, can make some contribution to part of their retirement income as an ongoing effort into the future, as it gradually takes hold with the passing of the decades, an effort to relieve the pressure on the social assistance goals. From that point of view, Ontario's idea of PURS, I would say, finds favour in, as I remember, those two provinces in particular and in other areas.

Mr. Haggerty: I think it's on page three in the other document there.

4:30 p.m.

Mr. White: Is it? It does with me too. I think you gentlemen and the Legislature have to look at a number of alternatives here as to how to deal with this problem. What I am trying to say is that PURS is certainly one viable alternative way of looking at it, for example, as an alternative to mandating registered pension plans.

Mr. Gillies: Actually I am referring now to your other document which could be very useful for us. One of the major problems we face with PURS is that really in order to be effective it would require national adoption, or we would favour national adoption of that plan. Have you found in your travels that there is some sympathy for the concept in several of the other provinces?

Mr. White: Yes. To be perfectly completely honest with you I would have to say there is at least one other province that wouldn't give it the time of day. It is wedded to the Canada pension plan.

Mr. Gillies: Right. If I might pursue that, Saskatchewan favours quite unabashedly the doubling of the Canada pension plan. Did you detect in your excursions any sympathy for that concept in any of the other provinces?

Mr. White: Doubling the Canada pension plan? I would say no. I would have to make an exception of Quebec. I think in there we tell you we have been led to believe that Quebec may be going to follow the Cofirentes+ route, which means some increase in the benefit in the Canada pension plan.

Mr. Gillies: Not doubling. To the best of your knowledge, then, it would appear Saskatchewan is fairly isolated in its position?

Mr. Smith: My understanding certainly is that in our discussions with many people in all the provinces they did not feel there was any need for (inaudible) to increase the benefit structure of the Canada pension plan.

Mr. McClellan: Presumably it had been looked at by the Lyon government in Manitoba.

Mr. Gillies: Prior to the upset election. Could you gentlemen fill me in somewhat on the timing of your trip? Was your trip undertaken after we had--

The Vice-Chairman: Mr. Gillies, I am sorry to interrupt. I think we had agreed to discuss one paper at a time and raise the questions on that paper after we had dealt with the social security proposal. I think Mr. McClellan had a question with regard to the social security document. We will come to yours after they give us their presentation on their trip.

Mr. Hewitt: Perhaps we could also answer the question as to the FEIC comment on PURS and I refer you to Wednesday, August 19, 1981, Hansard transcript page 22, an answer given by the

speaker. I made a number of comments on the need for PURS and how it bumped up against one's perceptions of regulations and mandating of such a policy. We suggested it certainly was Mrs. Haley's perception that there was a requirement to mandate. We also pointed out that our FEI constituency does not share this point of view; in fact, that there is no consensus that mandating retirement savings is necessary.

The Vice-Chairman: Mr. McClellan, you had some questions on this presentation?

Mr. McClellan: Really just on the lessons that could be learned from the experience in other jurisdictions, and again I am not competent to talk about European jurisdictions but I had been following developments with the American social security program reasonably carefully, at least as an informed layman.

First, you will concede, and I think you did, that the American social security benefits are substantially higher than Canada pension plan benefits simply because of the maturity of the plan, so as you say, we can't make dollar-for-dollar comparisons or payroll percentage comparisons. I was just curious, since you gave us the advice to follow, if I may say, from the experiment in Reaganomics in the United States--and that is what we are talking about, the $46 billion cut in the American social security system--did you have the opportunity to read the article in the December issue of Atlantic Monthly, the Education of David Stockman? Did any of you gentlemen happen to read that?

Mr. White: No, I haven't seen that.

Mr. McClellan: I would suggest you look at it because the author of the experiment concedes in the article that the object of the exercise is to benefit the well-to-do in American society. He says clearly and unequivocally that the object of the exercise is to make more cash available to those who occupy the upper-income ladder already.

Mr. White: If I can make one comment on that, I'd like to feel that we're having a meeting of minds, that you clearly understand what it is we're trying to do in this paper with our references to the US and the other references.

Perhaps we should have come right out and said it. Maybe we did--I think we did. We're trying to illustrate good reasons why Canada should proceed cautiously and slowly when it's contemplating expanding the Canada pension plan, and we're trying to illustrate this by laying before your group the examples in other countries of what has happened, countries that have, I think it's fair to say, overshot the mark on the social security side and now have got themselves into a fair amount of financial hot water. That's all we're trying to do. It's not a plea for Reaganomics. I don't even know what Reaganomics are, quite frankly.

Mr. McClellan: I think I understand the gist of your argument. That's the way I interpreted the argument and the point you were trying to make with respect to the American social security system. Again, I would suggest you read that article on

the author of the social security budget cuts. It puts it in perspective.

The other perspective I think it needs to be put in when we're trying to assess the ability of a society to afford generous retirement programs is Mr. Reagan's defence budget, which, according to the New York Times, totals $5 trillion for the next five years. One of the problems Mr. Reagan has is trying to reconcile that kind of astronomical expenditure based on those political priorities with the inheritance of a generous social security retirement system.

I don't envy him the task of trying to reconcile those two problems. But from where I sit that's the nature of the discussion that's taking place in the United States, and it's a question, really, of priority. It's not a question of lack of resources. It's a question of where those resources go, whether they go to provide adequate retirement incomes for ordinary Americans or whether they go into a beefed-up defence system in the United States.

Mr. White: It's also very largely a question of the state of his economy, as it is a question of the state of ours. As I say in this paper, if you don't have a sound, productive economy growing at a reasonable rate you just can't pay for these things--with or without a defence budget.

Mr. McClellan: You certainly can't pay for guns any more than Lyndon Johnson could. You can't pay for guns and butter, and I think we both agree on that, perhaps. Maybe not. Okay.

Mr. Riddell: The thing I can't reconcile is that we're sitting here wondering as a committee whether we should be making a recommendation as to whether we should reform pensions by going the public route or whether we should be mandating a provincial universal retirement system program, when we've had delegations appear before us saying that we should leave pension reform to the private sector and that the way to accomplish this is by offering tax incentives.

I know you people don't sit in government, but why in the world has government not offered this type of thing in the past: tax incentives?

Interjection.

Mr. Riddell: You say they have? Not according to the comments I've listened to from delegations. But if tax incentives will indeed accomplish what we hope to accomplish, and that's pension reform through the private sector, why in the world are we even discussing pension reform through the public sector or a mandated pension program at the provincial level?

Mr. White: To respond to your question, there are tax incentives now in place under the Canadian Income Tax Act. I for one believe, and I think there are many who share my view, that the limit on the exemptions is not kept up to date and that the current limits are much out of date in the light of past inflation since the limits were set. I think, coming from Ottawa, I'll go right out

on a limb and say that the reason it is so tough to get those limits raised is the view taken in Ottawa, the view in the Department of Finance in Ottawa and generally throughout government circles in Ottawa. They take a very hardnosed attitude towards anybody who wants to have those limits put on, their argument being that the exemptions are of benefit primarily to the people who have money to contribute to their retirement. I do not subscribe to that argument. I think it is completely wrong.

4:40 p.m.

In essence, I guess what it comes down to is, yes, there are tax incentives in place, but they are not nearly as effective as they could be because the limits are much out of date. The $3,500 limit, for example, was set at least 10 years ago. How much inflation have we had in 10 years?

Mr. Riddell: But if these limits were to be made more reasonable, would it not be cheaper to government, in the long run, to offer better tax incentives to allow the private sector to implement their own pension plans, rather than having government do it through, say, the Canada pension plan by doubling benefits and having to use a greater contribution rate and what not? Would it not be cheaper in the long run, less costly to governments in the long run, to offer the incentives and let the private sector look after the pension plans?

Mr. White: I certainly think it would be better. One of the reasons it would be better is that you would have the pension provisions being made in the area of the economy where they would be prefunded. Prefunding of them provides the assets necessary to support the pensions when it is time to pay them. You do not have to then tax existing workers to get the money to pay the pensions.

Mr. Hewitt: A supplementary would then be up to capital markets to ration the funds, if you will, according to the highest and best use. It would not be the responsibility of a cabinet committee, or some other group of wise men, to divide the accumulated income in the pool. It is a very difficult to administer a national industrial policy with a large pool of capital. It is not easy to pick winners, or to pick the kind of society in which we think people should live tomorrow, by deploying funds in private markets today.

The Vice-Chairman: Mr. White, would you like now to give us the highlights of your findings on your 10-province sweep?

Mr. White: I would be glad to do that, Mr. Chairman, and perhaps just pick out the principal ones, in the light of the hour. One of the principal ones is right at the beginning under GIS and Gains. I know this came as a great surprise to Mr. Smith and to me. Perhaps you gentlemen had realized it before.

I say near the top of the first page: "With regard to pension adequacy for the present elderly, the federal speakers at the Canadian Pension Conference last spring maintained that there is a pressing need to increase payments under GIS. This is still the point of view at the federal level, and the federal viewpoint is

based on studies using the national poverty line to test the adequacy of GIS payments."

When we were in British Columbia and Alberta, where in addition to OAS and GIS there are generous provincial supplementary benefits for the elderly and additional benefits such as free medical care, free dental care, free urban transportation, et cetera, we were told quite flatly there is absolutely no pressure on Victoria for any increase in benefits to the elderly. As a matter of fact they referred to this idea of increasing GIS as an eastern phenomenon; it just does not apply in British Columbia. When we got to Alberta, we received similar comments.

When we went to the Maritimes, we discovered that the poverty line down there is considerably below the national average. The current levels under GIS again are not considered to be grossly inadequate in those areas.

What it comes down to is the inadequacies are confined largely to eastern Canada, or eastern central Canada--I think this province and Quebec, particularly--and the large urban areas. We do not really have a national problem here; we have a very distinct regional problem. I guess that is posing considerable political difficulties for the people in Ottawa, and perhaps is the reason they have not acted sooner.

I thought that was an interesting point. I must confess I certainly missed the point there until it was pointed out to me.

The Vice-Chairman: It is certainly new and interesting information to us as well.

Mr. White: The first paragraph at the top of page two relates to the point I was asked earlier. In eight provinces there is not much support, if any, for increasing benefits under the CPP. Saskatchewan definitely wants to increase CPP; we even got the understanding that they would go their own way and put in the Saskatchewan plan if they cannot bring the other provinces along. Quebec may have already decided to follow the Cofirentes+ report, and that will be 50 per cent on the first half of covered earnings and 25 per cent on the balance up to yearly maximum pensionable earnings, which gives you a net of 37.5 per cent.

The dropout of child-rearing years: Saskatchewan will insist on this; Quebec already has it, as you know. In Alberta and British Columbia, we found considerable sympathy with Ontario's point of view. BC, of course, opposed it the last time along with Ontario, but Alberta is coming around to that point of view too. We thought you might be interested to learn that.

Again, in the next paragraph, if you leave out Saskatchewan, I would say there is practically no support for the idea of bringing non-wage earners, like housewives, et cetera, voluntarily under the Canada pension plan. Almost every province takes the view that it would be such a change in the program it would not be an employment-related pension plan operated nationally, it would just be a straight welfare program.

Mr. Haggerty: How would that be if there were contributions made by the homemaker or by a spouse?

Mr. White: It is understood that contributions would be made, but there is the additional point that they will be made by the people who can well afford it and not by the ones who cannot. So the very ones you want to help still do not get help. If anything, you would enhance the upside-down social welfare aspects of the Canada pension plan.

Mr. Haggerty: Regarding those who need the assistance, do you have any thoughts or views on how you bring in those persons who are on the lowest end of the totem pole? How would you bring them in under such a scheme to make sure that they have sufficient income?

Mr. White: It depends on which group you are talking about. If you are talking about the existing elderly--I think at the National Conference on Pensions last March-April the feds said they would take responsibility for them and do something for them under the GIS. They have not done it yet. If you are talking about the elderly in the future, then I think the way to provide for housewives--at the moment I cannot think of others who are not wage earners who might be involved here, but let's take housewives, which is a large block--is to make sure, as I believe you and other provinces are going to do, that there are adequate survivorship arrangements under all registered pension plans. In other words, when someone retires, if the normal form of pension does not include a proper survivorship arrangement, he must at least have that as an actuarial option. I am saying that in the future this will be taken care of in that way.

Mr. Van Horne: Mr. Chairman, are you going from a list?

The Vice-Chairman: No. Actually we are going to let Mr. White conclude his presentation and then go to questions. I gave Mr. Haggerty a little leeway there.

Mr. White: Near the bottom of page two, the second last paragraph, I think you will all be glad to know there is pretty general support for increasing the YMPE pretty rapidly up to the average industrial wage, not only in the other provincial capitals but I would say in the private sector too. I think you would get very good support for that.

Everybody is in favour of uniformity of pension benefits legislation, I guess at least until they want to do something different from the others, but I think we will achieve uniformity. I am certainly optimistic on that. We have pretty uniform life insurance legislation right across Canada and it works very well. I see no reason we should not get similar uniformity in the pension fund area.

For vesting and locking in, 100 per cent after five years of service seems to find unanimous favour. You could add on if age plus service equals 45 as an alternative in case that occurs earlier to sort of cover the older person.

The Saskatchewan amendment, second last paragraph--at least I call it that; I think they introduced it--that at least half the vested pension for a terminated employee must be provided by the employer, seems to find general acceptance, again not only in the provincial capitals but in the private sector too.

With regard to portability, the philosophy of portability certainly receives support in most places. I guess the idea of rolling it over begins first if you accept or work towards the philosophy that pensions are deferred compensation, because if they are deferred compensation then if a terminating employee with a vested benefit rolls it over into his own RRSP or takes it with him in some other way, he is only taking with him what really belongs to him. He might either roll it into a registered retirement savings plan or move it to the pension plan of his new employer if it has been modified to allow it to accept transfer values.

Incidentally, in Quebec we detected a strong feeling that it might even, in the not too distant future, require for registered pension plans in that province that vested pensions for terminating employees may no longer be left with the original employer; they have to be moved out, either into a registered retirement savings plan or into the plan of the new employer. So I think portability is definitely going to increase.

4:50 p.m.

There are some technicalities to it that I think have been surmounted. I guess our biggest problem in the immediate future--by that I mean the next 24 or 30 months, say--is selling this idea of portability to chief executive officers and the human resource vice-presidents of companies. In other words, you have to convince a president that it is in his interest to be willing to take money out of his pension fund and give it to a departing employee who has a vested benefit and let him put it into his own registered retirement savings plan or take it to his new employer. It is in his interest to do that to make the pension system work, and he should understand that what he loses on the swings he will gain on the roundabouts, because he will have employees coming to him who are going to be bringing money from the pension plan of their previous employers. But that is not an easy sell.

The Quebec point is covered near the top of page four in the first paragraph. The second paragraph deals with the excess interest approach for preserving purchasing power of pensions both in the course of payment and vested deferreds. That is finding pretty general support. British Columbia, you will notice in the second paragraph, has already shifted its public service pension plans away from uncapped CPI indexing and over to the excess interest approach. As I say, there are some indications Ontario might follow suit. The Quebec government is obviously unhappy about uncapped CPI indexing for its public service plans.

My own personal hope--I guess I sound a little like a Pollyanna when I say this, but I will take that risk--is that, if the public service plans move in that direction, the private sector plans may meet them. In other words, we may find a common ground using the excess interest approach as the means of maintaining

purchasing power of pensions, a ground that can be used by both kinds of plans, both public service plans and private sector plans. I think that would be a happy solution to this kind of wrangle existing at the moment.

There is great support for the concept of better survivor benefits, as I said a while ago. You all know Quebec has abolished mandatory retirement. I don't know there is much more in there of earth-shaking importance, but I would be glad to comment on any of it if you wish me to, or to answer questions.

Mr. Haggerty: I have one question that relates to the excess interest question on page four. Would there not be some adverse effect to this, if we jump onto the bandwagon saying this is the approach the government should take? We have heard so much now about the high cost of interest rates, how it affects the economy, the industrial sector as it relates to small businessmen and farmers and so on, and in many cases even the government here. This to me would seem to give the government a little bit of leverage to say, "We want to maintain the high interest rates so that we can maintain a viable pension scheme for government employees."

I am afraid here you are saying we should go along with the high interest rates, because there are some benefits to certain people in society and people will then perhaps jump on the bandwagon and say: "Yes, I can go along with high interest rates. We can add more to our pension plans. We are going to get benefit from it." Don't you feel there would be some adverse effect upon the whole economy if we jumped on the bandwagon?

Mr. White: I recognize what is in your mind and the validity of your comment. There may be somebody who is inclined to use that kind of argument. I think personally it would be a little specious because, let's take the federal government because it has primary responsibility in these areas, for it to say, "We go along with high interest rates because it works out well in pension plans that are now on the excess interest approach." The counter to that is: "Yes, but they wouldn't need it if you guys didn't generate so much inflation. We would not have high interest rates."

Mr. Haggerty: I think anybody who has savings in the banks and trust companies now is getting that little pink slip telling him that the the government is just waiting to jump on the interest they have accumulated on their savings, because here is another area to get additional revenue from.

The question is, when the government is selling and issuing debentures or bonds, the return is set at about 13 per cent. That is about the return on it. They feel that is an equitable return on the investment--investing in the government. In some cases, they are providing an investment for different arms of the government, such as the Ontario Development Corporation, EODC and things like that. There is some money being funded back through the investment to the private sector.

I can tell you about the automobile industry where they have a substantial handle on grants, and the paper industry. I just look

at this and, to me, it just seems to encourage the government in some of--I do not say the politicians, but maybe the top bureaucrats to say: "Let us keep it this way. We get an additional cash flow coming in that perhaps may assist us in getting out of debt," or something. It has never happened.

Mr. White: Maybe another aspect, though, another insight into what you are saying is that, in particular, when you talk about top-level mandarins in Ottawa, remember they are now fully consumer price indexed. If they want to let self-interest rule their motives, their decisions of what they are doing, or what they are going to do, or what they are going to recommend be done, they could not be better protected than they are right now. So I think the excess interest approach is an improvement over that. At least it relates what they get as pensioners to the performance in their pension fund.

Remember, too, that the pensioner is not completely protected under the excess interest approach. He is bearing the risk that the investment performance in his fund may not keep up with inflation generally. So he has a risk that he does not have under uncapped consumer price indexing. I think you have moved a major step ahead if you can switch them off uncapped indexing over to the excess interest.

Mr. Haggerty: But in this high interest rates phenomenon which is facing us now, there have been some huge windfall profits made. It is frightening.

Mr. White: Yes. And some big windfall losses too if you look at the equity market.

Mr. White: The clever traders have probably made some profit. I do not know. I am not aware of anybody--

Mr. Gillies: There are none in my riding.

Mr. Van Horne: Mr. Chairman, keeping one eye on the clock, I will try to be brief with this question. It ties into the first paper, basically the seventh page of your first paper.

Given that the expansion of CPP would take necessary funds away from private pension plans and investment in the private sector, which you are stressing here Canada desperately needs, and given that the QPP has, in a sense, been unduly influenced by government, either mandarins or politicians, can you suggest or have you considered any mechanism through which funds could be invested from an expanded CPP into the private sector in a productive way to help Canada?

Mr. White: Mr. Chairman, could I ask Mr. Hewitt to respond to that? He is much more expert in these areas than I am.

Mr. Hewitt: One idea that has been discussed, I think, publicly by economists and by actuaries is one of looking at the demographics bulge, as articulated in our paper and was excerpted from the Canadian Institute of Actuaries' brief to the national pension conference. It may behoove us, or it may be deemed wise, to

start now prefunding, if you will, this enormous bulge of retirements which are expected in the year 2020 or 2030.

One way of doing so would be to have a supplementary fund to the Canada pension plan and that money invested in a funded trust. Those funds could, through some body of wise men or public board, be redirected to the private sector, whether that be to the Silicon Valley of Ottawa or to the automobile industry in southwestern Ontario; that is for the body of the investment committee of that fund to determine.

It is an idea that does deserve public debate. It has appeal in the sense that it does even now to some degree satisfy Mr. White's comment that it lessens the free ride of those who will retire just after the turn of the century. It causes them, if you will, to contribute more to their retirement today and in so doing, it provides a pool of capital which can be directed to the private or public sector, if indeed that is the highest and best use as proved at the time.

5 p.m.

At the moment the money is being used in a sense like a general revenue fund. The money has been directed right back into the social transfer of payments. I find it rather humorous, not so when I think about it seriously, but when I put my feet up on the desk as a money manager--I do that from time to time--and reflect on the aggregate fund flows to the capital markets in Canada and look at pension plans per se, and trustee pension plans have assets.

I think the assets of (inaudible) were around $64 billion, probably $75 billion at the end of 1981. A very large proportion of the new cash flow going into those funds has already been invested in government of Canada bonds, province of Ontario bonds, OntarioHydro bonds and so on. I think sincerely that Ontario Hydro is a productive asset, but I wonder, when I track the fund flows through the government of Canada accounts and to some degree through the province of Ontario accounts when they are not directed towards fixed capital, whether that money is pursuing its highest and best use. It gets to be very difficult to determine whether soft costs, if you will, welfare development costs are productive. It is much easier to determine that in the case of pensions. It is deserving of debate, but not easy to measure the capital productivity.

Mr. Van Horne: Given the history of the report this committee started studying last summer and given the concern other provinces and groups have had, I am wondering why this did not get any heavier play or any greater debate earlier in the process. I am not a genius and this is not something that is original from my mind. You have touched on it but you really have not pursued it and I am just wondering why.

Mr. Hewitt: I suppose I have a couple of comments. One, my professional livelihood has been money management. I am a combination of economist and analyst of capital markets. Most of the pension debate has been in the halls of social development policy and those folks don't understand or have not studied the

intricacies of fund flows through capital markets.

Furthermore, I would suggest that the intricacies of capital markets are not particularly well understood by the media folks. It is very difficult indeed for many professionals. Ask someone out on Bay Street or King Street, or a banker, why the stock market is behaving the way it is today, why interest rates are at the level they are today, why government of Canada bonds sell as they do. Across the street, ask the folks over in the glass tower of Ontario Hydro why they sold bonds at 17 per cent last week.

The Vice-Chairman: Mr. Smith, I am sorry we will not have time to pursue the third element of your offer to share with us your thoughts on our interim report, but we would certainly be most interested in receiving that information if your institute has the facilities and the time available to submit that to us in writing. We would be interested in having your comments but I am afraid that time has run out on us today.

I again apologize on behalf of the committee for limiting your time somewhat and delaying your presentation. I think we have got the main thrust of your presentation today. It has been very helpful to us and we do appreciate it.

Mr. Smith: Thank you very much, Mr. Chairman. I think we will be delighted to send in a little note on our observations on your recommendations.

The Vice-Chairman: We would certainly include it as a formal exhibit of our proceedings, and we would appreciate it.

Mr. Smith: Yes. We certainly do thank you for this second hearing. As we have indicated before, our sole purpose is to try to assist in the development of workable solutions to the pension issues, and if we can be of any assistance in any way at all we will be delighted if you would give us a call.

The Vice-Chairman: Thank you, indeed.

The committee stands adjourned until 10 o'clock tomorrow morning.

The committee adjourned at 5:05 p.m.

PR-23

SELECT COMMITTEE ON PENSIONS

SHEET METAL WORKERS INTERNATIONAL ASSOCIATION
LOCAL 537

WEDNESDAY, JANUARY 27, 1982

SELECT COMMITTEE ON PENSIONS

CHAIRMAN: Taylor, J. A. (Prince Edward-Lennox PC)
VICE-CHAIRMAN: Williams, J. (Oriole PC)
Brandt, A. S. (Sarnia PC)
Cousens, D. (York Centre PC)
Cureatz, S. L.; Deputy Speaker (Durham East PC)
Gillies, P. A. (Brantford PC)
Haggerty, R. (Erie L)
Jones, T. (Mississauga North PC)
Mackenzie, R. W. (Hamilton East NDP)
McClellan, R. A. (Bellwoods NDP)
Riddell, J. K. (Huron-Middlesex L)
Van Horne, R. G. (London North L)

Clerk: Arnott, D.

Researcher: O'Mara, Dr. J., Legislative Research Service

Consultant: Bentley, W., Superintendent of Pensions, Pension Commission of Ontario

Witnesses:
From the Sheet Metal Workers' International Association, Local 537
English, M., Business Manager (Local 392)
Quin, S., Business Representative
Ward, G., Business Manager and Financial Secretary

LEGISLATURE OF ONTARIO

SELECT COMMITTEE ON PENSIONS

Wednesday, January 27, 1982

The committee met at 10:16 a.m. in committee room No. 151.

SHEET METAL WORKERS INTERNATIONAL ASSOCIATION

Mr. Chairman: Gentlemen, we have a quorum.

Mr. McClellan: I am sorry, Mr. Chairman--

Mr. Chairman: That is quite all right. I did not like to proceed without you, Mr. McClellan, but I am sure it has not inconvenienced anyone.

Our first witness this morning is the Sheet Metal Workers International Association, Local 537, Mr. George Ward, business manager and financial secretary, and Stan Quin, business representative. We also have, representing Local 392, Mark English, business manager. Gentlemen, if you would like to come forward and take a chair.

Mr. McClellan: Mr. Mackenzie asked me to convey his apology. His car broke down and he is somewhere between Hamilton and Toronto.

Mr. Chairman: I knew you were not deliberately trying to boycott this committee.

Mr. Ward: Will this chair be fine?

Mr. Chairman: Yes. Please just take one of those chairs.

Mr. Brandt: You are always making apologies for those guys over there.

Mr. Chairman: Someone has to defend the weak and the oppressed.

Mr. Ward: I would first like to thank the committee for allowing me to speak on rather short notice. Also keeping in mind the rather short notice, there are a few things I have prepared that I would like to submit to the chairman. They are basically examples of what I am going to say. On some of them you will find that maybe there are some social insurance numbers that I have not blocked out. I assume that if the chairman feels there is some confidentiality that should be there, he will stroke them out before the literature is distributed to anybody else.

Basically, our principle is very simple. In Local 537, we have a pension and a welfare plan. They are self-administered through a nonprofit administrator that we came up with ourselves. Our plans are all jointly trusteed between ourselves and the employers' association. We have one basic, simple principle: the money follows the man.

In some cases I guess we are breaking the laws of Ontario. Legally we are wrong, but morally we feel we are right. We are just new in the pension game. We just started our pension midway through a contract as of May last year. We have had problems in the past on reciprocation of pension moneys and welfare. I hope to show you some examples of where local unions in Ontario have up to $1.975 in benefits and all it has reciprocated to some locals is 82 cents. There are other local unions--Mark English's is an example--where they still do not have a pension; when members work in another local union area, they lose their entire pension money.

10:20 a.m.

I also have an example of a few members who have come to us from other local unions. No money has travelled with them and they have ended up having double coverage on their welfare plan. No money has ever come for their pensions. I also have examples of a couple of members transferring out of our local union to other local unions. We intend to reciprocate their pensions. If their locals don't reciprocate, they have a problem, but we don't think we do. We think the money should follow the man; it is the earnings of the man.

Also, when we negotiate the collective agreement--when we negotiate it locally and when we negotiate them on the provincial level now--the package is negotiated. How the package is broken down is generally left up to the individual local union. For example, what I am saying is that the package is the package and should be treated as a package. The package belongs to the man, not to the local unions for which they earn the money.

I would like the permission of the chairman to go through some of the exhibits and, if I may, give them to you and go over them one by one to give you examples of what I have just finished saying.

Mr. Williams: Mr. Ward, before you start on your examples, could you indicate to the committee the geographic jurisdiction of your Local 537?

Mr. Ward: Local 537 comes towards Toronto only as far as Oakville to the Oakville Creek. It carries on up Highway 25 up to Milton, then it turns towards Kitchener and we take in what you would call--I could give you the counties--Halton, Nassagaweya. I have a collective agreement here that I intend--

Mr. Williams: That's all right. I just want the general area. You don't have to--

Mr. Ward: Then we take in the Brantford-Haldimand-Norfolk area, the Niagara Peninsula, and Hamilton, of course.

Mr. Williams: A pretty broad jurisdiction.

Mr. Ward: At present we represent roughly 1,000 members, including apprentices.

Mr. Williams: Do you have your headquarters in Hamilton?

Mr. Ward: Yes; at 479 Main Street East.

I believe there has been a document submitted to you, and that is an example of members we've had working here in Toronto. There are many more but, at short notice, these are a few of the recent ones that we've had. If you will look at the first one, it involves a brother Peter Neufeld, and if you believe in the confidentiality you'll block out his SIN, or it might have already have been blocked out in your copy.

Mr. Chairman: Mr. Ward, if you wish to delete the name in reference to the document, that's fine with us, because there is a recording of what is said.

Mr. Ward: Okay. Very good.

I do not think I would get in myself in trouble because of confidentiality. I think if we ended up with reciprocity of all the benefits, I am sure the members would be very happy to have their names used. I do not think it would bother them in the slightest. Again, okay, I will refrain from that.

In June, this member worked 139 hours and after repeated calls and finally letters to Local 30 and their administrator, we finally received some moneys. This is the letter and the moneys we received. We received $202.12 in vacation pay for him, and we received 82 cents on 139 hours, which amounts to $113.98. That would be his welfare benefits for his dental and life insurance.

Mr. Haggerty: Is there any holdback on that money? You mentioned that this would be 50 per cent or half of--

Mr. Ward: That would be less than 50 per cent. If you notice some figuring done at the side--I will submit a collective agreement that has all the parts of the different appendages to the chairman. They are in short supply; so I didn't have many to submit. The example of Toronto is in there. You will find in that document that they have $1.975 in benefits. On this man's hours--if you see it at the righthand side--that would have been $279.53, but he received $113.98; so he lost $160.55. Of the $160.55, $1.25 is pension money. So on 139 hours, he lost $142.48. He will never receive that.

Mr. Haggerty: Where does that money go?

Mr. Ward: I assume it would stay in the Toronto pension trust.

Mr. Gillies: Could you give us an idea, Mr. Ward, of what this particular worker's hourly wage would be? Nothing precise; I am just trying to get an idea.

Mr. Ward: I would say his package would probably be in the range of $17 an hour. He would receive no travelling expenses for working down here; he would travel on his own. He would work out of Toronto as a Toronto member. Although he would be a Local 537 member, he would not be entitled to any of their benefits.

On the next page are two more examples. The two members who worked there quit after they realized they were not getting their pension money reciprocated, which again puts them back on unemployment insurance. It puts them on unemployment insurance with some difficulty because they have quit a job which automatically gives them a problem of about six weeks before collecting. Out of the 41 hours, they received 82 cents, which is $33.62. They lost $42.02.

Mr. Haggerty: Have you requested any changes in the province-wide bargaining act? Have you requested any changes from the Ministry of Labour to include protection of pension contributions by an individual so that it is portable in a sense?

Mr. Ward: This is one of the demands we made. As you know, we are going into provincial bargaining now. We figured it was quite simple to cover reciprocity in the collective agreement by simply stating that when a travelling member works in the area of the jurisdiction of another local union, all his benefits will automatically be transferred back to his home local. We thought this was simple, easy. Everybody agrees, but then we get into the hotchpotch of trust documents and administrators.

Although I can understand an administrator cautioning a local union that possibly they are breaking the law by reciprocating pension money, the administrator is only an employee of the funds. If the directors or the trustees of the fund tell the administrator to reciprocate, I think he should reciprocate. But they are saying, because it is a technicality you do not have a pension; or, in the case of ours, our pension is not quite exactly registered yet--as you know, it takes a while to get a pension registered--and they are not reciprocating to us.

Even before the time we had a pension, our members lost $1.02 an hour. We do not think that is right. We think that the wage package is negotiated as a wage package and that money belongs to the member.

Mr. Haggerty: Are you having any difficulties in getting your pension plan registered? Where is the difficulty?

Mr. Ward: Where we had a difficulty--and this is going to be a good story for you--we originally decided to get into the pension scheme, and the trustees agreed to a pension. The joint trustees agreed that because it came in the middle of a contract, when we worked overtime, double contributions would be paid on any overtime hours.

However, because we were in provincial bargaining, any agreement such as that has to go before both provincial bodies. The Ontario handling group said that it set a dangerous precedent and that they could not agree to the double-time hours. What happened to us was our employer trustees felt superbad about it because they felt they had basically been kicked in the teeth by their own association. So what they and the union trustees decided was that the money would be paid into the pension scheme after tax.

There was our problem in getting registered. It basically

became an employee-contributed plan rather than an employer-contributed plan. However, we intend to change the plan properly so that it is an employer-contributed plan as of May 1, 1982, during negotiations. On that premise they say when that happens, fine; we are registered, no problem.

10:30 a.m.

In fact, for about the four weeks the pension went along, say the month of May--say six weeks; it went up to May 15--the money was nontaxable. But then, because of the big problem on the overtime and the rejection of the Ontario air handling group to a dangerous precedent on double contributions, they reverted to taking it after tax dollars. That was our problem in getting registered.

Mr. Haggerty: You are the second group that I am aware of--

Mr. Chairman: The electrical workers.

Mr. Haggerty: Yes, the electrical workers have run into the same difficulty. Are there any other provincial trades that are running into the same thing? The iron workers, say?

Mr. Ward: I think there are several.

Mr. Brandt: I think all of them are, quite frankly. The information that we received from the International Brotherhood of Electrical Workers was that any reciprocity between any of the construction trades is virtually nonexistent. There is some transferring going on, like you are doing here, but on a very informal basis.

As far as any kind of formal plans are concerned, I do not know of any from the Ministry of Labour standpoint. But even further to that, the point I was going to make, which is supplementary to yours, was that I am not aware of the construction trades advising the pension commission of this difficulty.

Mr. Bentley indicated that the IBEW was the first group that came in that highlighted this particular problem. He was pleased that they came in, and I am very pleased that you are here today too, because it supports the very problem that was brought out and made very clear by the IBEW.

This is absolutely wrong, in my view. Your philosophy of the money following the man is absolutely correct. It is his money. He has earned it and he should get it, irrespective of where he goes.

We had a long series of examples given of guys who are working in Alberta, or wherever construction projects happen to be going on--for example, in my own riding of Sarnia there is a lot of construction at the moment--and there is no way of getting that money back to the home local of the individual so that the man can benefit from the very dollars that he negotiated in his agreement. So I agree with what you are saying. We have to address the problem, but I do not think it has ever been highlighted.

Mr. McClellan: I was wondering if any of the affiliated locals have taken this issue to any of their councils, not just to get it hashed out, but to come up with a common solution to the problem. It then could be forwarded here for some action.

Mr. Ward: What happens in a lot of cases--and the London locals were a fine example of it in 1966, when they built the Ford plant at Talbotville--most business managers and representatives are politicians, and they have to do things that are popular in their local union, or you do your three years and it is back on the tools.

What happened in 1966 in the London area, and it only involved welfare plans, is that we had members lose $500 or $600 down there. They had a boom time going, and they had agreed, principally among all the business agents, that London would reciprocate the money. When the time came to reciprocate the money, the London local was going into negotiations and they thought, "Wow, look at this beautiful strike fund we have."

That is exactly what happened in the sheet metal. Rather than reciprocate the money back to the people who earned the money, they spent the money on strike benefits for their members when they were on strike. Their members, in 1966, were getting something like $250 a week strike pay. It came directly out of the welfare benefits and it should never have done that.

For example, we have another business agent on and he could not come today--a fellow by the name of Owen Pettipas, who is a business representative for the local now--who lost more than $600. Back in 1966, that was a nice piece of change. It is a nice piece of change today.

Mr. Haggerty: The trust funds that you have there, are they not protected by some legislation that says it has to go into a pension trust? They did not go in there and tap that resource with some violation of some provincial act, or even of your own constitution.

Mr. Ward: Yes. Again, I do not know how London's was structured in 1966, but I know ours are very rigid. They are on record here with the standards branch. Last year, we wrote Mr. Scott, I believe his name is, for permission to use some interest money to buy better dental benefits, and we received permission back from the government. They allowed us to spend that money for that purpose.

Even the federal tax law says that as long as the money is being spent to enhance benefits of the members, the money is nontaxable--the interest, that is--and they generate a fair amount of interest.

I cannot understand why local unions do not want to reciprocate. A fine example here is Local 30. They have to be one of the wealthiest locals in the union. They are the wealthiest in Ontario, if not one of the wealthiest in Canada. Local 8 out of Alberta might be giving them a run for their money now with their oil prosperity. Why they would want to keep somebody's money, I don't understand.

Mr. Haggerty: Are these all registered plans or unregistered plans?

Mr. Ward: They are all registered plans, to my knowledge.

Mr. McClellan: When IBEW were before us, I thought the problem they were talking about was reciprocity between locals where one had a registered plan and the other didn't have a registered plan. I thought they were saying that when two locals had a registered plan there didn't seem to be a problem within IBEW, because reciprocal agreements worked okay. Where they got into problems was if a local had made a decision not to have a plan at all. Then there wasn't any vehicle for the other local to transfer funds back. That's what the other guy would argue; so that's where they were getting into problems. I understand your point is that you are having problems right across the board between two locals. There are a bunch of locals, all of which have registered plans.

Mr. Ward: Yes, we are having a problem with a couple of them. Most of the locals in Ontario will reciprocate with no written agreement.

Mr.McClellan: Some are kind of ornery.

Mr. Ward: Yes, there are two that we have run into; one is Sudbury and the other is Toronto. But any of the reciprocal agreements that I have seen--for example, if Hamilton's was 75 cents an hour pension and Toronto's was 102.5 cents, Toronto would keep 27.5 cents. They wouldn't reciprocate the whole dollar. Unbelievable. I am probably going to say it several times but it's a man's money. It is nobody else's money but the guy who earned it, and I can't for the life of me see why people would want to keep it.

So, we flip over the other pages--the members we have working in the Toronto area now are all going for a bath of 102.5 cents pension money. I think if you add up the figures of 102.5 cents and the 82 cents that they are reciprocating, you still fall short by six or seven cents and we understand that's a supplementary unemployment benefit and something else. They don't spell it out very clearly in their agreement.

I still think even that other eight cents should come. For example, in our local union we have a five-cent-an-hour dues relief fund. There is no reciprocity--nothing. Every member pays that. We reciprocate that five cents back to the guy's home local. The only way he could get any benefit from that five-cent dues relief is to be unemployed and be a member of Local 537. But if he is a member of Local 30, he is obviously not a member of Local 537; so we send the five cents back where it belongs to him. He earned it. It is his five cents.

The only thing we don't reciprocate is one cent an hour, which is the provincial negotiating fund. A man would pay that regardless of where he worked and we send that on to the provincial group. But every last penny he earns in our area we send with him. It is his money.

I think it should also go further than pensions. It should go into welfare and it should go into SUBs or training funds or whatever. It is all geared to the man's earnings--it all comes out of his pay pack. As I say, if you add up the Toronto money you will come up with a discrepancy of seven or eight cents.

I don't know if there are any more questions. If you want an example, I have several.

Mr. Chairman: Are you finished, Mr. Gillies?

Mr. Gillies: Mr. Chairman, this is the second delegation we have had in talking about problems related to this area of reciprocity. Quite frankly, as a member of the committee, I am not sure if there is any legislation or regulation of the province or the federal government that is being breached here or if there is anything that we could recommend that would help alleviate the problem. So I wondered if it might be appropriate if the committee were to ask Mr. Bentley if the pension commission could look into this area and see if there is anything that we should be recommending.

Mr. Chairman: Mr. Gillies, we will be looking into the area of the committee. As a matter of fact, I have scheduled Friday for a paper that touches on the area of multiple employers, where there are a number of problems. But we will be getting into it I think in some depth.

10:40 a.m.

Mr. Gillies: I appreciate that opportunity, Mr. Chairman, because it does seem very unfair. I think it would behoove us to be able to provide some answers to the members of this delegation and the IBEW as to what we turn up on it.

Mr. Williams: Of course, Monday morning last, as you recall, Mr. Chairman, the Canadian Co-ordinating Committee on Multi-Employer Pension Plans spoke for all of the unions that were caught in this particular bind.

Mr. Ward: One other thing, if I may, that I forgot to mention. When we started our pension we had some money in our vacation with pay interest fund. It is always a problem what to do with the money--when we got the pension where would we start with the membership. So we decided to start the membership at 10 years and we burned some guy with nine years and 11 months. We tried it again, started it at seven, and we zinged some guy with six years and 11 months.

So we decided to come up with the first year, a guaranteed year of purchasing an annuity. Basically, what we projected it on was the average age of the membership. If the member worked May 1, 1981, to May 1, 1982, an annuity would be purchased in his name, and if he never worked another day in Local 537 that annuity was his. Our projection at the time was for a member, regardless of whether he was 65 or 66 or whether he was 25, when we purchased that annuity, it would be anywhere from $125 to $160, depending on the experience of investing money and at the interest rate today. But it would never be lower than $125.

So basically we are looking at May 1, 1982, when we will probably have maybe 40 members who are in the 65, 66, 67 age bracket who will be able to retire and get anywhere from $125 to $160 a month from nothing. We intend to roll over a considerable amount of interest from the vacation pay money to start it off, along with each member contributing $1,050. I do not know of any plan where a member could contribute $1,050 and end up with an annuity that would give him $125 or $160 a month the next month. And that is one of the reasons why it is so important.

Some of the people we have working on that last list--there is one gentleman who has been down there since August. They have not reciprocated any of his welfare money or anything so he is having to pay his coverage here, in Hamilton, and he is having to wait for his money to come out of Toronto. When it comes May 1, 1982, he is going to have to dig into his pocket and kick in $600 or whatever it is so that he has his guaranteed $1,050 paid and he will probably have $800 laying here in Toronto. That is one of the reasons it is super important.

After May 1982 it is going to be a money-purchase type of plan. The money would be in there and naturally you would get a better return on your money than doing it yourself because you would have volume. Money mounts up very fast. It does not take long to end up with $1 million in a pension scheme at 75 cents an hour. It just pours in; it is unbelievable how it comes in. And I think when these people are keeping $1 an hour or $1.10, they are keeping a tremendous amount of money.

Mr. Chairman, I have had five copies of this made--I did not know how many copies I would need. If you want to have other copies made would you block out the social insurance numbers, because I took them right from our records. These are a couple of examples of members that have transferred out and how much money they would lose if we decided to keep the money. I could probably give you some enlightenment on the first fellow.

I will not mention his name, but he came to us from British Columbia, Local 280. I understand he had some difficulty when he came to us. He was broke; so we had to help him out a little bit financially until he got on his feet. But he had a tremendous amount of money lying in Local 280 which they would not reciprocate to him. In other words, the money did not follow the man; they kept the money.

He worked in our area and started contributing towards a pension. He has since transferred back out and is back in Local 280 but he does not have a tremendous amount of money; he was an elderly fellow. But he has $234 pension money chalked up in Local 537; it is his money, it is nobody else's money. We carried his benefits until he terminated, and we carry him to the detriment of the plan of one month.

So the plan carried him one month but in his bank hours of his welfare he still has $31.40, which again we feel is his money. He also has vacation pay of $119.19, which again will automatically be reciprocated. We have not reciprocated yet because we are not sure he is back in Local 280. Eventually, we get a card that says

this is where he has landed. "Please be advised that John Doe has landed in Local 280. Here is his transfer." Then we automatically reciprocate his money.

Mr. Haggerty: Are there any difficulties because his vacation pay is transferred?

Mr. Ward: No, none at all. In fact--and I will be honest with you--we do not trust some of the business managers in different parts of the country and in Ontario--I hope I am not quoted--

Mr. Haggerty: Oh, you are.

Mr. Ward: We send the vacation pay in the man's name, because there is no way we want some of them to get their hands on it.

Mr. Chairman: Is there a reciprocity of feeling in regard to--

Mr. McClellan: The witness should be aware that he is being recorded.

Mr. Ward: That is fine. I am sometimes not very popular with some of the other locals at home anyway.

Mr. Chairman: I was commenting somewhat in jest, knowing of course--

Mr. Ward: This is another problem. For example, if you were to kick your heels up with some of the local unions about getting your money reciprocated to you, they would not give you your people. For example, let's say for some reason the business agent in Sarnia--we will use Sarnia just as an example, but the member is a good guy; there is no problem with him--

Mr. Brandt: I am glad to hear that.

Mr. Ward: But let us say he is mad at me, at George Ward, and is not going to use Local 537 members. To me, that is beyond reasoning; but there are people who think like that. I would use a sheet metal worker regardless of where he is from. If we need people, we need people. I think some of them lose sight of the fact that it is a brotherhood. I think maybe this is what happens to them: money boggles their mind and they lose sight of the fact that it is a brotherhood.

Mr. Brandt: We are going to need (inaudible).

Mr. Ward: We are hoping that we will be busy enough ourselves.

Mr. Brandt: It will be very busy.

Mr. Ward: We understand right now that Windsor, your neighbour, has about 65 per cent unemployment.

Mr. Brandt: He is in bad shape. They are welcome as well; we have enough work for all of them.

Mr. Ward: He is a good guy too. He reciprocates.

Mr. Haggerty: We won't be going to the American side to bring him across this time, eh, Andy?

Mr. Brandt: We are hoping that is not going to be the case, I can assure you.

Mr. Haggerty: We have a lot of problems in that area too; the local made them go that way to bring them across the border. I won't get into that.

Mr. Brandt: We won't get into that in the context of pensions.

Mr. Haggerty: No. I know that we discovered this during our Liberal labour task force committee that visited Sarnia. This is one of the things that was mentioned, that there was no need to bring in people from the American side. There are all kinds of locals here that have men available but perhaps through a business agent or something like that he was not permitted to work.

Mr. Brandt: There is the question of travel and accommodation. That was one of the key things, as these gentlemen well know. I really think that is a side issue to the main issue of pensions at this point, although I would be prepared to discuss it at another time, Mr. Chairman.

Mr. Gillies: Just while we are on this point, could you give me an idea of what percentage of your Brantford members are working on that?

Mr. Ward: Yes. Strangely enough, we are not in bad shape in Brantford.

Mr. Brandt: Speak for yourself.

Mr. Ward: We don't know what we are doing, mind you, but it is true that Brantford is in very rough shape; but, as far as sheet metal workers are concerned, we are doing pretty well.

Mr. Gillies: Locally?

Mr. Ward: Locally. Stan could maybe tell you a little more; he serves the area up there.

Mr. Quin: Surprisingly enough, Brantford is in good shape. We have maybe four members out.

Mr. Gillies: Am I ever pleased to hear that. That is just great.

Mr. Quin: Of course, it is a tough struggle with some in the other group to keep them on the straight and narrow.

Mr. Gillies: It's good to hear that one of the trades is doing well. Sorry to digress there, Mr. Chairman.

10:50 a.m.

Mr. Ward: Concerning the second example on the next page over--and I won't use the member's name--this member came to us from Sudbury in June of this year, and you can see that he had a very successful half year. No money came with him when he came to us from Sudbury. I understand that they didn't reciprocate the money in the benefit package that was in Sudbury for his health and welfare, but when he became a member of ours we carried him.

But because we're a collector for the Ontario health insurance plan--we didn't take any OHIP from him; he had an exemption number, so we saved him some money there--basically what this member did when he was with us was to make double contributions. The only people who made any money were the insurance companies. They paid his dental, they paid his life insurance and they paid everything, I think, in Sudbury for him until he depleted his money up there. Because of our requirement when he became a member of ours when he transferred in he also, when he became eligible--if you look at his record, he became eligible very fast because he made a considerable amount of money--ended up paying double welfare benefits to two insurance companies. And that's wrong.

Now, if you look at his work record, he drew vacation pay of $1,700 in October and he's back up to $909.94. He has got pension contributions to the tune of $1,032.76 and he has welfare of $625.85; so he has a considerable amount of money that technically, I guess, we could keep--all except his vacation pay. So we could probably keep about $1,600 of his. Of course, we have no intention of doing that. When we find out where he finally transferred to--we're not sure whether he went to Thunder Bay or back to Sudbury; we'll know when the other half of his transfer card comes back to us--we will reciprocate his money in total to him. Again, I can only say that that's the way we feel it should be.

The next page is another fellow who transferred out. It's not a breakdown of his money. He transferred to the Sudbury local, and we sent up $681.10 in welfare and pension. He had already received his vacation.

So there are some examples of what we do now and what we've always done when members transfer out of our local area.

Mr. Brandt: The question I want to ask relates to the inner workings of the various locals within your particular trade. Are you giving us the message loud and clear that there is little, if any, possibility of some kind of reciprocal arrangement being worked out, and that you are asking us, in the pension field particularly--although you've addressed other problems that would have to be looked at by some other body--but with respect to pensions you're saying, as I understand it, that you want some form of legislation that will allow for this kind of reciprocity to have the man's pay, or the amount of contribution he makes, follow him wherever he goes?

Mr. Ward: Yes. I think there are possibilities of some reciprocal agreements being reached, but they all have little cliff-hangers in them, or little catches. For example, if you get the 75 cents in your local and the other local has $1, you only get the 75 cents; or if you don't have a pension you get nothing.

I think there should be some legislation one way or the other that if the local unions are going to keep the money then maybe the vesting period should come down, and if they're forced to vest some guy with half a year's pension then they might be very happy to transfer his pension money back to his home local. Or, as I say, legislate reciprocity. I think that's the simplest answer: that the money follow the man. And to make sure that it's done right it should be legislated that the money follow the man.

Mr. Brandt: And to the best of your knowledge this situation within your trade is not unique and probably covers many other areas.

Mr. Ward: No. I think we probably reciprocate more than a lot of the other trades--among ourselves.

Mr. Brandt: If we're looking for legislation it would have to cover all of the construction trades; you wouldn't be opposed to that. You're suggesting, I think, that we've got to move in some definitive way to protect these men.

Mr. Ward: I agree with you, and I think it should cross trade lines. For example, we had a few electricians working for us at one time, and we reciprocated the money to the electrical local. We have no qualms about doing that.

Mr. Chairman: Again, it's the money-following-the-man concept.

Mr. Ward: That's right.

Mr. Chairman: You know it's his money, and to confiscate that money is unconscionable.

Mr. Ward: That's right.

Mr. Chairman: So I guess it's a matter of finding the proper mechanism to ensure that the man does receive, ultimately, the money in the pension benefit and probably even another vehicle to ensure that it could be locked in, such as a locked-in registered retirement savings plan whereby his benefit would accumulate.

Mr. Ward: I think, Mr. Chairman, that it has to be such that there is no way around the money following the man, that there's no way of hiding behind a technicality where you say, "Our trust document says this" or "Our administrator says that" and "This is contrary to pamphlet such and such so that we don't have to do it." I think it should be crystal clear that it's the man's money and the only person who should be entitled to benefit from that money is the man.

Mr. Brandt: Mr. Chairman, to pursue this point for just a moment, I'm concerned about clearing up this whole area. But, in addition to that, if the committee strongly considers the question of this transfer of money, one of the things we're going to have to look at is what I would guess is a very substantial pool of money that could be sitting out there with various locals where the money has not been transferred already.

In other words, we'll have to look at some kind of recovery period, because what do you do about the years, I would imagine in some instances, where money has been invested in a local where they have no real right to that particular money but, in fact, because they don't have a method of transferring the money through to the man or to his local it's sitting there in some kind of fund and conceivably could be used for other purposes?

Mr. Ward: It would depend on how loose their trust document was. Yes.

Mr. Brandt: Yes. In your case you mentioned, if I read you correctly, that you used the interest on some of your money for a dental program.

Mr. Ward: Yes.

Mr. Brandt: Now, if there were money mixed in with yours that you had not transferred--I guess you're transferring all of your money, from what you're saying.

Mr. Ward: Yes, we transfer it all.

Mr. Brandt: But if another local had followed the same pattern and had used the interest on some of their deposited money or invested money for another purpose, whatever it might be, it could be a very positive and a very valuable purpose such as a dental plan, but the fact of the matter is that they are using interest, or interest that's derived on deposits that don't really belong to them.

Mr. Ward: That's right.

Mr. Brandt: So it could be a very complicated matter, but I think we as a committee have to look back at that recovery period in addition to trying to clear up the problem you are addressing.

Mr. Ward: Yes. And I think one of the problems, too, is that human feelings come into it. For example, the second guy in this middle page is worth quite a bit of money. Because maybe Sudbury and I didn't get along so well and Sudbury didn't reciprocate any money down when he came, we could take the attitude and say: "He didn't do us any favours when he was here and we're not so keen on Sudbury today; so we're going to keep his money." Well, that's wrong because it's the man's money.

Again, that's trying to get at the administrator or the business manager of that local through the man's money. That's wrong, but that happens in Ontario. We have other local unions that reciprocate to us but might not reciprocate to Toronto because Toronto is stealing from them and they are going to steal from Toronto. That's the philosophy.

Mr. Gillies: So it's very subjective on the part of the business administrators.

Mr. Ward: Yes. In fact, at one of the last meetings we had with all of the Ontario business managers in the province of Ontario I told them that if they were going to continue to steal from us--and that's what we call it--then when we administered the one-cent-an-hour negotiating fund we were going to take the money from the one cent an hour and then they could take us to court for stealing from them. But we haven't done that yet.

It's something we feel very strongly about. I can't understand how the other locals could have their heads buried in the sand on it. I don't understand it.

Mr. Gillies: Have any of these instances actually ended up in a courtroom?

Mr. Ward: No, not that I know of. We would be willing to try it. We're not hard to get along with.

I have another set here, if you will give me a minute to go through it, which shows exactly some of the local unions that reciprocate back to us. Again, Mr. Chairman, if you would like, you could hand them out and have the applicable social insurance numbers drawn out, because, again, we took these directly from our files. It shows how the local unions have reciprocated to us and they have sent the whole shooting match to us.

11 a.m.

Mr. Chairman: We should block out the names and reproduce it so they show blank.

Mr. Ward: As an example, one of the first ones is that we had money reciprocated to us from the Windsor local on a couple of members. They sent us $344.73 welfare and $211.26 pension. So they are reciprocating. There's no written reciprocal agreement.

Pardon me. I said Windsor; it's Kitchener that is doing it. Windsor also reciprocates, but in this particular instance it's the Kitchener local that is reciprocating the moneys to the local unions. That happened in July 1981.

Mr. Chairman: Is there any common method or standardization of record keeping in regard to the affairs of the locals? Are their books audited? I'm just wondering how some of these things might be handled.

Mr. Ward: We're audited every year, and, of course, we file income tax forms, but we do it through what we call Local 537 Funds Administrators Incorporated. We're incorporated, and we're self-administering. We have a girl in the office who administers the plan, collects the moneys. We chase delinquent employers or whatever. We find that it actually works better than farming it out to, say, Tully and Associates or somebody else, although I'm not saying Tully is doing anything wrong.

Especially in the hard-money times we're in now, with bankruptcies, things like that, with it being self-administered we're very on top of when people are going to go broke, and we've been very successful in getting mechanic's liens in to get our people's money. That's one of the advantages of being self-administered.

As long as you file income tax and you're audited properly by a chartered accountant--of course, it comes before the standards branch of Ontario to be allowed to do it, anyway, so there's always the override. I imagine it's checked constantly, anyway. For example, as I said, when we wanted to use money we wrote the director--I think his name is Scott--to get permission to spend money. The trust documents are filed with the standards branch of Ontario also. So there is a certain amount of control, I would think. I don't think that's a problem. I don't know.

Mr. Chairman: But where there's potential for the type of recrimination you have mentioned that works unfairness, we just wonder how that could be countenanced.

Mr. Ward: One of the things that happens is that most of the people who use an administrator get to go to Hawaii once or twice and year and things like that. For example, we don't get out of town, because we're self-administering, and we, of course, aren't offered seminars on NOI. People who use administrators have a blowout twice a year here and there, but because we're self-administering we're not in that. That could be one of the reasons some of them use administrators, I guess. I have no idea.

Mr. Chairman: Any further questions on that?

Mr. Haggerty: If Andy hasn't got any more, I just wanted to ask: Have you taken a look at the recommendations of this committee in its response to the Haley report on pensions? Have you given any consideration to the recommendation that the province enter into a pension scheme called the provincial universal retirement system?

Mr. Ward: No, I haven't. I'll be honest with you. I haven't had the opportunity to read about it.

Mr. Chairman: Further questions on this point?

Mr. Ward: The second sheet is a remittance sheet that I would assume the administrator in Windsor uses. It has a list of members' names, the hours they have worked and the moneys they have reciprocated back to the local. There are figures there of $800 and $600. It is another local union that reciprocates to us; it is a Windsor local, and that is for members we had working in July 1981.

There is another one with the Windsor local and it is reciprocating the total funds to the local union. The funds are reciprocated for the total number of members, $1,298.75 welfare and $2,779.50 pension. That is another good example of a local reciprocating the way it should on the money-follow-the-man principle.

Again, the third page is just a couple more members, and it is $251 pension and $175 welfare, and that is the way it should work. It is the members' money.

Mr. Mackenzie: I am just wondering if you people have talked to Wells Bentley at all on this matter recently.

Mr. Ward: No.

Mr. Mackenzie: I know he has requested a meeting with the IBEW people who work for us on the same general theme of money following the man, and he has been waiting for some time to have dialogue with some of the building trades people, because it has been a concern of his for some time. I think, apart from what we do, it would probably pay you to make arrangements to have a chat with him. I know he is trying to set it up now with the IBEW people.

Mr. Ward: I myself would be happy to do anything we could to end up getting the Ontario group together and getting into--

Mr. Mackenzie: I suggest that you make a point of getting hold of him fairly quickly.

Mr. Ward: Another part I have here is how we reciprocate money to the other local unions when we have members working in the area. Roughly, we receive the money on the fifteenth of the month. The girl posts the money and, if there are members from out of town, there is a notation made on the sheet with the member's name, and she just automatically, instead of putting the money into our bank account at Royal Trust, calculates the money up and refunds it to the local union he came from.

In other words, if we get the money on the fifteenth, the money is mailed out to the local union. The first example is a member from Kitchener. The money came in to us, and he probably had the money back from his own local by the twentieth of the same month. We do it automatically. There are several examples of how we do it, and it just automatically happens. As I said before, we don't only apply it to welfare; we apply to it to vacation pay, pension, dues relief fund, any money that man cannot take advantage of because he is not a member of Local 537. We reciprocate the whole shooting match.

Mr. Haggerty: When that statement is sent out, is there a statement sent to the union member himself as well as the business agent, or just the one?

Mr. Ward: I believe there are two sent out, one to him and one to the business agent. In fact, there are four sent out. There is one sent to the employer's association to let them know, and because Funds Administrators Incorporated isn't Local 537, they send Local 537 a copy also.

11:10 a.m.

Mr. Chairman: So the employee is kept informed as to what his benefits are?

Mr. Ward: Yes. I think another bad theory of the people who don't reciprocate money is, if they don't tell the guy when he starts to work, the guy lands in the local union office and they don't tell him he is going to go for a bath with $1.10 an hour. He goes to work, and the next thing you know, in our case, if the man doesn't have enough money in his welfare portion, we send him out a card, saying, "Unless you work so many hours, send us $80 or you are not going to be covered," to put it in plain language.

If he is working in Toronto, he automatically thinks his money is being reciprocated, and it is not. Consequently, he could fall out of benefit which, if something happened, could leave him in one hell of a fix. That is the problem. A lot of them go to work out of their own area, and their money is held up, in the case of welfare, maybe four, five, or six months. The guy ends up being out of benefit, especially if you send a card to his home address and there is nobody home--if he is living somewhere in Oshawa--and he does not even know he is out of benefit.

Mr. Riddell: Are we done with the specific examples? Is this what you wish to--

Mr. Ward: I can get these printed off too, so you could have the last group I spoke about; and if you want to go through them and ask questions, I will be happy to answer.

In summing up, I simply say that (inaudible) contracts are negotiated on a package, for example, when we negotiate this year, when the employers say they are going to give us $6 an hour--I am only kidding, but whatever they say--say we settle for $3 an hour, how we divvy up the $3 an hour is up to us. If we wanted to raise our vacation pay from 10 per cent to 12 per cent, it would come out of that $3. If we wanted to raise our pension by another 25 cents, the 25 cents would come out of that.

For example, you will see notations in the collective agreement. Our welfare went from 60 cents to 70 cents. We had to make a change during the contract two years ago because the benefits got so expensive. We had a very bad experience on weekly indemnity and long-term disability; so it was either slow the benefit down or go to the members and get another dime. We went to the members and got another dime. Where did the dime come from? It came out of the pay package. There is no other place you are going to get it.

That is one of the things to keep in mind. The money is negotiated in a package and it is usually up to the local unions how they divvy it up. The money belongs to the man. It is the man's money. It is on an hourly basis and, if the total package is $17 an hour, the man deserves $17 an hour, not $16 an hour. That is all I can say.

Mr. Mackenzie: Could you give us any idea as to why there has been resistance to the reciprocal agreements and why it is not something you have been able to negotiate internally?

Mr. Ward: I don't know how to answer that, other than that, if I was going to keep somebody's money, then I must obviously be gaining by keeping his money. I don't know whether--

Mr. Mackenzie: I presume you have some sort of a council or convention procedure, as most unions do. Has the issue been on the floor?

Mr. Ward: It has been on the floor several times. One of the last times, it went to the Canadian council, and we ended up with a reciprocal agreement. But you had to have a bevy of lawyers to read it and understand what it was all about; it was such a complicated mess. It cost the Canadian council something like $16,000 to get the thing drafted up, and it was not worth the paper it was printed on. It was so complicated; there were so many strings attached that it was not worth it.

However, there is one presently trying to go through the Ontario conference but, again, one of the statements in there is that, "If the benefit is only 75 cents and our benefit is $1, we are only going to give you 75 cents." One of the reasons they keep it is that they must get such a tremendous broad base, especially in pensions, of keeping people's money. For example, in Toronto here, they are going to get Harbourfront going, and the estimate is for something like 600 sheet metal workers from out of town down there. If you get 600 people giving you $1.025 an hour on 37.5 hours, you are talking a tremendous amount of money.

Obviously, if you kept in your pension plan, maybe you could lower the retirement age, or maybe you could put more money in for retirement for the members who are in the clique. If you are in the group, you are great. If you are outside the group, too bad. Maybe that is why they keep it, I imagine: to broaden their base on what they can pay out.

Mr. Mackenzie: Does the resistance seem to be basically from three or four locals?

Mr. Ward: Yes. In our experience, it is mainly two, Toronto and Sudbury. That is where we have had our problems.

Mr. Riddell: I was going to ask, apart from the specific area of reciprocity you people have zeroed in on, and an area I think most members on this committee, if not all, agree has to be corrected, you to share your views with us on pension reform in general, understanding, of course, that this committee has been given the responsibility of making recommendations as to how we might come up with a better pension scheme.

The alternatives are to enrich the Canada pension plan, to mandate a provincial pension program or to offer tax incentives to companies to implement their own private pension schemes. Have you people given any thought to this at all, and could you share your views with us?

Mr. Ward: Again, I don't really know how to answer that other than probably to simply say we laboured in the wilderness of not having a pension for quite a few years. We ran several pensions at the members and they finally accepted this one in May of last year. But there seems to be a lot of misunderstanding about pensions. I think a lot of the general public do not understand pensions. They do not understand their rights under the Pension Benefits Act.

A lot of people are hung up on vesting. Although there is legislation on vesting, it is not necessarily always followed through. I think the years on vesting should be down myself, away down. If people realized they have to vest somebody and carry that man, they might incorporate his pension with another pension he could have somewhere else.

Just talking off the top of my head, I think the general public isn't aware of how good or how bad a pension can be. I think a lot has to be done to get the public aware of the value of the pension.

You mention the Canada pension. Good news travels slowly. Bad news travels swiftly. If you asked the people on the street about Canada pension, possibly people of my age, they would probably say, "By the time I retire, the Canada pension plan is going to be broke," because that's basically the philosophy they read in the newspapers or hear from the television.

I think people fear, in regard to pensions, that in a lot of cases you just put money into something and get nothing out. There is a lot hidden about pensions that people don't know about or they are afraid of. I think the language should be simple. It should be so simple a 12-year-old child could understand it. I don't think the pension language should be as complicated as it is today. I think a lot of people don't understand pensions.

Mr. Riddell: You are probably aware of the recommendations we made in our interim report, one of which was vesting in five years, with the eventual phasing in of three-year vesting if not down to immediate vesting.

You indicated you have a pension plan now, and I trust you are fairly well satisfied with it. Would you like to see that pension plan continued rather than, say, having the government mandate a pension plan that will then, as I understand it, supersede any other kind of pension plan in effect now?

Mr. Ward: If the government mandated a better pension, then I would automatically go for the better pension. In our particular instance, we are in the crawl stage right now as far as pensions are concerned. Again, with our system of vacation pay, we collect a vacation pay and it is in a trust fund and there are a couple of draws a year on it. However, the money generates money and possibly in a couple of years, once we get our pension going again, we can roll the money to broaden our base by interest from vacation pay rather than from keeping people's pension money. I guess that is how other people are doing it, but again I don't know. It would depend on the government proposal on a pension. Maybe the government can propose a pension that could enhance any particular pension schemes that are on the market now.

11:20 a.m.

Mr. Riddell: What would the members of your local think if they were told that the Canada pension plan benefits were going to be doubled but that it might well be that they would be looking at a 15 per cent to 18 per cent contribution? How do you think your members would accept that?

Mr. Ward: Other than maybe taking a shot at the government that proposed doing that--again, you are asking me something that I will try to answer the best I can. If they were going to get a better benefit from it, I do not think they would mind paying it.

If I can wander a bit, the construction industry is killing the Unemployment Insurance Commission--well, the unions have been ruining the country for so many years it does not matter anyway. But if the people who are using UIC--probably not now but back a few years ago--are the majority of people in construction, then the construction workers should pay more UIC. If they are the ones who are using the benefit, then why shouldn't they get more benefit?

I think the same could apply to the Canada pension. If you were going to double the premium and they were going to get double the benefit, why would they want to scream, other than the fact that they might want to take a shot at the government, saying, "There is a government that put more controls on this or that"? I myself, if I could collect the pension and get a better Canada pension, would not mind paying double contributions.

One of the big bugaboos of the Stelco strike--you are probably all well aware of the Stelco strike--was the control of their pension money. They have no control over their pension money. Their pension is hinged on other pensions that have a ceiling of $800, say--I don't know the exact figure--so it leaves very little incentive for them to get into the Canada pension, because then they would be allowed to earn only so much; I understand the ceiling went up to $1,600, which is not a hell of a lot of money any more.

Mr. Haggerty: They are not permitted to stack.

Mr. Ward: That's right--and that's wrong. If you are permitted to stack and you pay income tax on the money over what is allowed, what's wrong with that?

If I could get this other set made up, the one where you (inaudible), that would give you basically what I have. In the case of Mark English, and he will probably be happy to tell you, he is in the pension wilderness by the fact that he does not have a pension but he pretty well loses his money when he works everywhere.

Mr. Chairman: Mr. English, you are with Local 392; is that correct?

Mr. English: That's right.

Mr. Chairman: So you have a little different problem that you want to set out.

Mr. English: Yes. We don't have the pension; so we don't have any problem in getting the money sent back--it just doesn't come. If you talk to the local, they say, "We can't give you the money. That money is earmarked for pensions; so we can't give it back to you unless you have a pension."

Mr. Chairman: But you contribute.

Mr. English: Certainly. If you point out to people that this is a part of this guy's pay package, that he earned this money, they say: "No. That's not his money. That's money between the local union and the pension." So the guy just does not get it.

I really believe the money should follow the guy. I know what it is like to work somewhere, travelling; you have to go to another city and you have to pay board. If you go to Peterborough, where I believe the total pay package is the third highest in Ontario, or another area that has a higher pay package, you end up with less money to take home because you are paying board. I have guys who are on unemployment right now who won't travel to go to work because there is $37 or $40 a week right off the top that is going nowhere; it is going down the tubes.

Mr. Haggerty: So what you are actually saying is that this province-wide bargaining is no good at all?

Mr. English: That's right.

Mr. Ward: That's another story.

Mr. English: The other thing on pensions: We hope to get into a pension--we are working on it now--but it is very hard to convince people about pensions. A guy on the scaffold just does not understand what it is all about. If you bring somebody into your membership to talk about a pension, he talks about things that the guy doesn't understand. If you get another guy in, he tells a different story.

Mr. Chairman: Where do these guys come from?

Mr. English: Insurance companies and what have you. I know very little about a pension. I don't know enough about a pension to set one up without some advice from someone. After having talked to many people, I don't know which one of them I should take advice from.

I think the pension thing really needs overhauling, especially in the construction end of it, because we have an industry here, more so in the nonskilled trades than in ours, where we have many people coming and going; they stay six months, a year or two years. They pay into a pension, but they will never collect from that pension. Really, I don't think this is right.

If a guy pays into a pension, somewhere down the road he should get some return from the first payment he makes into that pension. If it takes government legislation or a government pension to make it, then I guess it's easier to change the government than it is to get the money out of a trust company or an insurance company.

Mr. Van Horne: Mr. Chairman, I wonder if I could get the gentleman's comments on how he would view the PURS proposal. Would he support that in the light of his pension experience?

Mr. English: The Canada pension, for instance?

Mr. Van Horne: No. Maybe you are not familiar with the proposal--

Mr. English: No, I am not. I am fairly ignorant on that. I just found out yesterday about this meeting.

Mr. Van Horne: It is not a fair question then. I wonder if the other gentleman--

Mr. Ward: Which proposal?

Mr. Van Horne: PURS, the universal retirement scheme.

Mr. Ward: Again, I can only sum up what I know about things that are done by the government. If the government, be it the provincial government or the federal government--I would sooner it be the provincial government, because I live in Ontario--if the provincial government were to come up with ways that would guarantee pensions; if the provincial government were to come up with ways to guarantee health and welfare as well as we do; if the provincial government were to come up with ways of protecting vacation pay as well as we do on our own, then we could get out of the administrative business of pensions, welfare and vacation pay and get down to the true function we were originally on for, and that is to organize the unorganized.

Basically, as the business manager of Local 537, I am not that any more; I am the administrator of funds. I chase liens. I chase late contractors for vacation pay. I chase the Workmen's Compensation Board. I'm a chaser.

Mr. Haggerty: You are a gofer.

Mr. Ward: That's right; I'm a gofer. We do not do the things for which we are here. We are probably more business than business is business, instead of being a union. We are into administration so deep that if we get another leaf of administration on our eyes we are going to drown.

Another example: With our vacation pay, our welfare and stuff like that, and being self-administrative, we would send a requisition up to Royal Trust. Royal Trust would say, "Fine, we will write the cheque." Or if a guy were going on vacation, we would requisition his vacation pay and he would get a cheque from Royal Trust. Royal Trust simply said to us: "Well, if the cheque is 50 cents a time, now it is going to be $1 a time." I said: "That is excessive; we'll do it ourselves." Consequently, we ended up doing more again. This is what is happening to us.

If the government could come up with good schemes that would give us the protection that we do through collective bargaining and by self-administration, I would be all in favour of it, because then we could get away from it. We have wandered from what our original purpose was.

Mr. Chairman: I gather, Mr. Ward, there is some

scepticism on your part. You indicated on the part of your membership as to whether they will ever get a pension. Do you feel that maybe you could do the job a little better yourself rather than leaving it up to somebody else to look after your membership?

11:30 a.m.

Mr. Ward: Probably the reason we could do it a little better or why it seems we could do it a little better is that we are there. We know the group. We know basically what they will accept and what they will not accept. Maybe that is why we could do it better; I do not know.

I do not know if the government got together and there was a super effort, whether we could do it better. Maybe the government could do it better. For example, the government probably has a heck of a lot more things to do than worry about benefits or protection. Again, with us it is a full-time deal because we are there. That is the only reason. I think the only reason that we could do it better is that we are there. That is basically what I think it would be.

Mr. Chairman: Mr. English, you have stated that you contribute but you do not collect. Have you any suggestions to make that would address your problem?

Mr. English: Well, what I would like to find out is how I can either collect down the road as a pension or get back the money that I am putting in now. This is what I would like to know. I hope I am going to have a pension, but what about the money that the guys paid last year and the year before right back until when they first came in?

When you bring the guy from a trust company or wherever, who is trying to sell the pension, he gets up and tells the guys about the tax shelters and the dodges. I think this is something that government should do and we should all do because pensions are a necessity. They should not be used as a dodge or anything else. They are a necessity in our society and I think that it is really important that the people understand this. When the average guy on the scaffold gets talking to the guy who thinks he is a good tax man, everybody has their own idea about how they are going to save us some taxes.

More important than the pension to some is how they are going to dodge around tax. Every day our country becomes more and more something that lives on dodges rather than on straight tax. I really think in this construction industry, we need a pension.

Mr. Haggerty: Sounds like Mr. English is not opposed to the MacEachen budget.

Mr. English: You need a pension everybody who works in the industry can participate in, not because somebody likes them or does not like them. If he works at it for a couple of years and he finds his health will not allow him to work outside, it is when he has gone down the tubes that he can take it and go somewhere else.

Mr. Chairman: Mr. Haggerty, I do not think that you can

draw the conclusion that Mr. English is not opposed to the MacEachen budget. What he is saying is that by the time they get involved in playing all kinds of games, they forget the object of the exercise, which is to make sure you have a pension. There are no people who are skilled in the art of plain talk to speak clearly to the membership so they understand what it is all about.

Mr. English: I do not understand what is in most pension documents. I think I am a fairly average construction worker, but it seems to me every time you get talking about pensions some guy stands up and says, "Well, my neighbour down the street can get me a lot better deal than that."

Mr. Chairman: How big is your membership?

Mr. English: Ours is a very small membership; about 70 to 75 people.

Mr. Chairman: But they are all in the same boat where they contribute but do not--

Mr. English: Many of them have RRSPs and they put the maximum they can put in there. They do not want to become involved in pensions. It's a waste of money.

Mr. Haggerty: But surely there is an obligation of the other unions to protect that person's pension regardless of what local he is in.

Mr. English: Oh, I think so.

Mr. Haggerty: I find this rather difficult to swallow, that there would be still that feeling of--you call it brothers, but the terminology, and I have gone through it too, ended up calling them blood brothers. They just do not seem to want to co-operate. One is more powerful than the other and they do not want to lose that distinction.

Mr. Ward: I think I use a better word. I usually call them thieves.

Mr. Haggerty: I thought unions today would be looking more for the general welfare of its membership rather than trying to take something from somebody to feather their nest a little bit better. I am surprised that it still continues that way today.

Mr. Ward: I heard somebody say provincial bargaining was not working, which is again wandering, but if I can wander on some parts of provincial bargaining possibly I can get into bankruptcies and receiverships.

If you think of it, there are roughly 5,000 sheet metal workers in Ontario and they basically have benefit plans amounting to $3 an hour, which would include vacation pay, pension and welfare. When a company goes broke or if you look on that amount of money on 5,000 people who work 1,800 hours in the average year, you are looking at roughly $27 million being generated in that year for that number of people. It is not small potatoes any more. It is a lot of bread.

I think there should be some kind of blanket coverage for these people when they do go broke so that this money is there. We went through quite a few liens recently. In fact, I think we did something that you are not supposed to do; we put a lien on the Toronto International Airport--Wardair. Everybody told us we could not lien federal lands, but we sure got reaction out of a 17-cent stamp on a letter. We did get our money. We are one of the few people who did get our money out of the contractor who went broke at the Wardair hangar. One of the reasons we did get the money is that we are self-administered.

The money comes to us on the fifteenth of the month; it does not go to some administrator. Again, that removes a problem. Then by the time he works up a delinquency list, most local unions have gone past the lien time, unless they know something about the directors and stuff like that. They know if they get an arbitration award within six months they can sue the directors personally. There is a tremendous amount of money that is written off by a lot of these plans. Maybe that is why they do not reciprocate pension money. Maybe they make up their shortfall somewhere. I am only making suggestions about what happens.

There is something else that should be looked at. When you talk of $3 an hour that is on the line for each guy and there is basically a six-week administration period for that money to come in, in a lot of cases when people go bankrupt a guy gets beat for a considerable amount of money, especially when the banks reach back in and drag cheques that have supposedly cleared the bank. They reach back a couple of months and do not pay their welfare, vacation or pension money for people. That is something in provincial bargaining that I would like to see negotiated in the collective agreement so that the employers or the unions jointly may come up with some kind of overall bonding for companies that go bankrupt. There has to be a way of protecting ourselves.

Mr. Chairman: Do you feel then that some of this money that should be pension money is being used to cover losses because someone missed a time period for a lien or whatever?

Mr. Ward: I am not saying that is what's happening. It is only a suggestion that possibly that is where they are using some of the money they do not reciprocate to make up shortfalls.

Mr. Mackenzie: I am just wondering when you are talking about the fact that pension should be a necessity--comments you were making a little earlier--do the sheet metal workers have any position at all on the public pension plans and the improvement of CPP and OAS? I realize you are in dispute with the CLC and the feds at the moment.

Both the CLC and the feds have come out very strongly for sizeable improvements in the Canada pension plan. I was also interested in finding that this position was supported by the IBEW people who were before us, although they were also concerned with their own money being borrowed on that principle. Has there ever been any position taken by the sheet metal workers in terms of whether you should be improving the public pension plan?

11:40 a.m.

Mr. Ward: To my knowledge I do not think the sheet metal workers are on record of being in favour or opposed. If I could generalize and speak for the group, I think they would be in favour of enhancing the Canada pension plan; I do not see why they would not be. But, then again, I do not see why they do not reciprocate.

Mr. Mackenzie: But, as far as you know, there is no official position.

Mr. Ward: No, there is not at this time.

Mr. Brandt: In a case where a retired worker from your local were to come back to you as a true hardship case, do you have any mechanism for dealing with that kind of an individual? Perhaps he was employed in your trade at a time when the pension benefits were not deducted. What do you say to a man like that?

Mr. Ward: We are new on the pension scene. The only way I can answer that question is to give you an example. I stated that our first year is going to buy an annuity for everybody in the local, regardless of his age, with a contribution of $1,050. We presently have, I think, six or seven members on long-term disability. The funds are going to pay their $1,050, so that they will have the annuity. In future years, if we had somebody on pension and there was hardship, again I can only say that money generates money; and we do generate money with the vacation pay and the welfare.

There is another thing: I just about forgot how strongly we feel that the money belongs to the man. In most welfare funds, if you deal in the welfare funds, when a person pays over a set amount of bank hours--ours works on six months' bank hours--a guy roughly has, say, $600 in his individual account. The money usually is slushed into a general reserve. We refund the money back to the member at Christmastime. I think this last Christmas we roughly refunded back about $90,000 to the members.

Mr. Brandt: What does that work out to, per member?

Mr. Ward: The way we have it now is that a man has six months in reserve. Once he reaches that total of six months--and at times it takes quite a while to reach it; if a man takes successive holidays, or is unemployed, he may never reach it; in fact, I have not reached it, so I have never received a refund--but once he reaches that maximum reserve, any moneys over and above that are refunded to him. By the way, in case there are any federal people here, we also issue a T4-A slip, because he has to pay tax on that money.

Mr. Chairman: Are there any further questions?

Mr. English· I would like to add something about our welfare portion. Once a guy reaches a maximum amount of money which will give him a year's coverage, if he has a spillover, we put it into an RRSP. It is registered, but it is not reciprocal to a pension plan. We thought at first that would work, but it does not work.

Mr. Ward: Just about the question on provincial bargaining, and I know I am wandering: The member who raised the question, does he feel it is not working?

Mr. Haggerty: I mentioned the Liberal labour task force that went across the province about two years ago. We got into the Thunder Bay area, Windsor and other places; I think Sudbury was one of them. The impressions I got at the time was that it was only geared for the Toronto locals; that the people in northwestern and northeastern Ontario knew nothing about it at the time.

They were very disappointed that they were not better informed about it. They felt that what the Toronto local says is for their benefit and they could not care less about the rest of them out there. From what you tell me today they seem to have been pretty well right on. It is the old saying, "Toronto is Hogtown."

Mr. Ward: One of the problems that happens with provincial bargaining is that local contractors lose touch with the local union and vice versa. I think that is bad.

Mr. Chairman: Mr. Ward, do you agree with Mr. Haggerty's comments about province-wide bargaining?

Mr. Ward: The problem with us--and again this is only my personal opinion on Toronto--is that in our case the rest of the local unions in Ontario are looking for Toronto to lead, and Toronto is not leading. That is one of the problems with us.

Mr. Haggerty: Particularly in the Thunder Bay area, they thought setting up regions would be better, breaking it down instead of having it across the province. For example, the Hamilton region would take in the Niagara district; London would take in Sarnia. Broken up that way, it would be a lot better for them and they would be better informed.

Mr. Ward: Reflecting back to the time before provincial bargaining, most of them went in there with their eyes wide open. I don't think they have met the expectations they thought they would get out of it. For example, with us, we were the only local that voted against provincial bargaining as far as the sheet metal workers were concerned. Our main thing is that if we end up with a dispute, regardless of what kind, the local group we used to deal with runs and hides behind the provincial group.

Mr. Haggerty: Another problem brought to our attention was related to the carpenters who, in construction, would also be rodmen up in northern Ontario. Apparently, it would be more economical for the construction industry to be more competitive in that area. They could override certain areas. When the carpenters' work was done they could be rodmen. It would be more economical to go that way, but in province-wide bargaining you have to have that.

It may work well down in the southern part of Ontario, around Toronto, but up there it just causes more problems and more unemployment. They are bringing people from southern Ontario to go up there and do the job when there are men up there who can do it. They are more diversified in the trades up there.

Mr. Ward: One of the other problems too is that there is a main body of the agreement and there is a local appendage which applies to a local area. If you have something in your area that you think needs to be corrected, you have to convince the rest of the provincial group this is something you need. If you don't do that, they just throw your proposal to the wind and you are left spinning. That is one of the bad parts about it.

Fortunately, we have some clauses in our appendage that could in turn be incorporated in the provincial group. There are several examples of things that have happened here in negotiations that people were not made aware of. One example is sheeting and decking in the Hamilton area, because of Robertson Buildings Systems being one of the pioneers in it, and Westeel-Rosco when it was Rosco. A lot of the sheeting eventually was done out of Hamilton. We ended up with a certain group of members who were not necessarily journeymen sheetmetal workers. They were what we would call sheeters and deckers. They had a clause in their agreement that we got rid of through years of negotiations. We got rid of the act of God clause and inclement weather and all this thing. If you wanted a guy to show up, you had to pay him two hours' pay whether it was rain, snow or what. Now it is three hours, but there is the old act of God thing back in there. There is language in there like "where it is beyond the employer's control."

Consequently, now the showup time is out the window. That was never mentioned at a meeting in Hamilton when the proposals were proposed. Another bad thing is that, on the last set of negotiations for the province, other locals were not even there. There were not as popular as they should be among their own peers; so they did not get elected to the negotiating committee. If you were not there to PYA, you lost it. That is basically what happened to us.

Mr. Haggerty: That was one of the areas that was mentioned in northwestern Ontario, in the Thunder Bay area; the cost of bringing somebody down here to find out what it was. By that time they were not aware they were bargaining down here. So there was poor communications all the way around.

Mr. Ward: The voting structure is bad too. The voting structure of Toronto, for example, was to woo Hamilton. We could outvote the rest of the province.

Mr. English: Toronto and my local could do that.

Mr. Ward: Toronto and his local with another 80 members could outvote the whole province. They could offer Hamilton nothing and Toronto $3 and Toronto could carry the contract.

Mr. Chairman: Further comments anybody? Thank you very much, gentlemen. It has been very instructive. We have spent a very worthwhile morning with you and you can rest assured we will take your comments into consideration in coming up with our review and recommendations.

Mr. Ward: Thank you for the opportunity to speak, and if I can be of any further help at all, I will be happy to return; or

if there is anything you need that pertains to reciprocity, I will be more than happy to come again or mail you whatever you need. Thank you very much.

Mr. Chairman: That concludes the delegations for today. This afternoon we will be dealing with some material that has been put together for discussion and the committee can get on with that at 2 o'clock.

The committee recessed at 11:51 a.m.

PR-24

SELECT COMMITTEE ON PENSIONS

AUTOMOTIVE PARTS MANUFACTURERS' ASSOCIATION OF CANADA

THURSDAY, JANUARY 28, 1982

SELECT COMMITTEE ON PENSIONS

CHAIRMAN: Taylor, J. A. (Prince Edward-Lennox PC)
VICE-CHAIRMAN: Williams, J. (Oriole PC)
Brandt, A. S. (Sarnia PC)
Cousens, D. (York Centre PC)
Cureatz, S. L.; Deputy Speaker (Durham East PC)
Gillies, P. A. (Brantford PC)
Haggerty, R. (Erie L)
Jones, T. (Mississauga North PC)
Mackenzie, R. W. (Hamilton East NDP)
McClellan, R. A. (Bellwoods NDP)
Riddell, J. K. (Huron-Middlesex L)
Van Horne, R. G. (London North L)

Clerk: Arnott, D.

Researcher: O'Mara, Dr. J., Legislative Research Service

Consultant: Bentley, W., Superintendent of Pensions, Pension Commission of Ontario

Witnesses:
From the Automotive Parts Manufacturers' Association of Canada:
DesRosiers, D., Director of Research
Lavelle, P. J., President
Meserve, K. V., Technical Adviser and Industrial Relations Officer; Counsel to Management

LEGISLATURE OF ONTARIO

SELECT COMMITTEE ON PENSIONS

Thursday, January 28, 1982

The committee met at 10:12 a.m. in room No. 151.

AUTOMOTIVE PARTS MANUFACTURERS' ASSOCIATION OF CANADA

Mr. Chairman: Gentlemen you should now have in your binders exhibit 186, dated January 26, 1982, from the Institute of Chartered Accountants of Ontario, 69 Bloor Street East, Toronto.

Exhibit 187 is a supplementary submission, dated January 1982, from the Social Planning Council of Metropolitan Toronto, 185 Bloor Street East, Toronto.

Exhibit 188, dated November 23, 1981, from the Financial Executives Institute Canada, is entitled Social Security in Canada.

Exhibit 189, a submission from K. H. Smith, president of Financial Executives Institute Canada, and C. G. White, chairman, employee benefits committee, is entitled Report on FEIC Visits to 10 Provincial Capitals.

Exhibit 190, by the committee research officer, is a summary of presentations of January 25, 1982, and is dated January 26, 1982.

Exhibit 191, from the Sheet Metal Workers International Association, Local 537, contains background information--correspondence dated October 19, 1981, from J. A. Donnelly, financial secretary, Local 30, and December 4, 1980, from Mrs. J. Payne, administrator, Local 30.

Exhibit 192 is from the Sheet Metal Workers International Association, Local 537, and contains background information and statements regarding sheet metal workers' pension welfare payments.

Exhibit 193, by the committee research officer, is background information entitled The UA Social Security System.

Exhibit 194, from the Canadian Security Industry Pension Committee, is a submission dated January 27, 1982, from Diane Urquhart, secretary, Canadian Securities Industry Pension Reform Committee.

Exhibit 195, Mu-Cana Investment Counselling Limited, is a submission from D. G. M. Coxe, executive vice-president and secretary-treasurer.

Mr. Williams: Mr. Chairman, there is one exhibit there referring to the social security system. Is that the US system?

Mr. Chairman: It should be USA, yes. That is exhibit 193. I said UA and we left the S out.

Mr. Williams: In other words, it is the American social security system.

Mr. Chairman: Yes, the United States of America.

We have with us this morning the Automotive Parts Manufacturers' Association of Canada. It is represented by Patrick J. Lavelle, president, Dennis DesRosiers, director of research, and Kenneth Meserve, technical adviser and industrial relations officer. They have brought with them a statement which has just been distributed to you and which will be entered as an exhibit in our proceedings. Gentlemen, we are in your hands.

Mr. Lavelle: Thank you very much, Mr. Chairman. My name is Patrick Lavelle, and I am the president of the association. Our statement will be made by Mr. Meserve.

I thought I would just introduce the association for a minute before we get on to the statement by telling you that the Automotive Parts Manufacturers' Association is an organization which represents 300 independent parts manufacturing companies. Many are located in Ontario, but they are also located in other parts of Canada, such as in Quebec, British Columbia and Manitoba.

We are independent parts manufacturers as opposed to being subsidiaries of the vehicle manufacturers for General Motors or Chrysler. The bulk of our membership, 60 per cent in numbers, is made up of Canadian-owned companies as opposed to being subsidiaries of multinational companies operating in Canada, although we have a large representation from that industry as well.

I would also make reference to the fact that we have distributed for members of the committee a series of charts and graphs. They really do not relate specifically to the situation we are discussing here this morning, but more generally refer to the economic situation in which the industry is currently involved which has some effect on the kinds of comments and presentation we would make this morning relative to social security and social insurance benefits and the ability of the industry to contemplate serious changes in the present competitive situation vis-à-vis the United States or other trading partners with whom we have to deal.

The automotive parts industry in Canada and particularly in Ontario at the present time is very much in a crisis position. As you can see from some of the figures in the graphs, the unemployment level in the auto parts industry in Ontario today is at about 38 per cent, 21 per cent of that being temporary layoffs and 17 per cent being structural layoffs which are jobs that may not be recovered in the return to economic good times that we are anticipating hopefully by the middle of this current year.

We are also having difficulties with the fact that imports of Japanese cars have taken a very large share of the Canadian market which causes problems for us. If we are going to retain or indeed regain our competitive position, all efforts have to be made to keep costs in line; indeed, costs must be reduced over the next few months.

Having said that, we are perfectly capable and would be willing to answer any questions on that specific side. Those charts are provided for your information, and undoubtedly we will be discussing these matters with members of the Legislature on other occasions.

10:20 a.m.

Mr. Williams: You appear to have specifically omitted reference to certain automobile manufacturing companies. You mentioned you made parts for General Motors and for Chrysler. You did not mention Ford or American Motors.

Mr. Lavelle: I omitted them by accident. We do make parts for Ford, General Motors, Chrysler, American Motors--

Mr. Williams: I assumed that to be the case unless I had missed something on the way through.

Mr. Lavelle: No. No discrimination whatsoever.

Mr. Williams: Okay.

Mr. Lavelle: We do not represent vehicle companies themselves. We represent the independent parts companies.

Mr. Williams: But they purchase from--

Mr. Lavelle: They purchase parts--not enough, but they do purchase.

I would like now to call on Mr. Ken Meserve, on my immediate left, who is a consultant to the Automotive Parts Manufacturers' Association on the matter that we are discussing this morning. Mr. Meserve has a long period of experience in the automotive parts industry in Canada, and I would turn it over to him now.

Mr. Meserve: Thank you very much, Pat. I think that what I would like to do is just read through the three pages of presentation and, if there are any questions that may come up or if I ad lib on occasion, you will understand.

To repeat, the APMA is a national organization with the majority of its members and employees located in Ontario, with significant representation in Quebec and western Canada: member companies, 300; employees represented in 1979, 63,000. As of December 31, 1981, when we made our last survey of the employment situation, we discovered that we now represent only 39,000 employees and that 17 per cent in this period of time have lost their jobs through plant closures and 21 per cent are now on indefinite or temporary lay off. In the future the employment situation is likely to worsen, and we refer to the attached documents that we have given you.

The cumulative effects of new social initiatives and expansion of existing plans by government adversely affect our ability to survive in a competitive world and provide jobs. It must be emphasized that our industry is truly global in nature and subject to competitive pressures.

If government require employers to make costly changes in public programs, of which pensions are only one element, we will be less able to satisfy government, society and employee aspirations for improvements in the total compensation package.

Some of the areas where Canada, and in particular Ontario, lead the world in social legislation are workers' compensation (I have been a member and a director of the Industrial Accident Prevention Association for 14 years; so I have some knowledge of world affairs in terms of workers' compensation and Ontario ranks among the best), unemployment insurance (and again Canada ranks in the world as a provider of unemployment insurance), occupational health and safety, equal pay for work of equal value, affirmative action, retirement income through CPP/QPP, OAS, GIS, Gains and RRSPs--which leads us into our concerns related to the recommendation in pension legislation in Ontario.

The typical auto worker employed by a member of our association has a pension, usually negotiated, with post-retirement increases. The pension plans provided by members of our association to their employees are benefit based plans, as opposed to money purchase plans. Therefore, we are not concerned particularly about the recommendations that will introduce unisex tables because it will not affect our members, changes in mandatory retirement age or requiring survivor benefits. Again, all of our plans have survivor benefits of various kinds, but few are at the 60 per cent level that is recommended. These issues are of concern to employees covered under money purchase plans, that is, the unisex tables, changes in mandatory retirement, et cetera.

Our concerns are related to recommendations which will dramatically increase our cost of doing business with no benefit to either the employer or the employee. They are vesting, portability and indexing.

Vesting is closely related to portability. The commission's recommendation is to reduce vesting from 10 years to five years. Since we have 38 per cent of our members' employees laid off, a large majority of our current employees are vested at the 10-year level. I can speak from personal experience in terms of companies with which I am familiar that those laid off have 15 or 16 years of service. To reduce this vesting period at this time would require a change in our actuarial assumptions and therefore a cost increase without benefit to either our member companies or their employees. However, we state we are prepared in a longer-term frame to reduce the vesting period.

Our American competitors are vested after 15 years, and benefit improvements may be costed over 40 years into the future, while in Canada, for new benefits, this period is only 15 years. We would be supportive of giving the employee the option of transferring the value of his or her vested rights into a registered retirement savings plan, but such amounts should not be available to the former employee until retirement.

Our position on indexing is that it's not affordable. We should not be seeking a method of indexing pensions in the public sector or private sector and, as we stated earlier, the typical auto worker in our industry has a pension usually negotiated with post-retirement increase but not indexed. Rather, we would propose that indexing in the public sector be discontinued.

We have not addressed ourselves to the 163 recommendations that you people are faced with in terms of interpretation because

many of them are not of direct consequence to our membership. We have addressed those things that we feel adversely affect the competitive position we have among our membership within the global community we are working in.

Mr. Williams: You make the comparison on page three with your American competitors, who are vested after 15 years and benefit improvements may be costed over 40 years in the future, compared with five and 15 here. That's under existing American legislation?

Mr. Meserve: That's under existing regulations.

Mr. Williams: I see. So there are no options there. They're bound by those.

Mr. Meserve: They are bound under the Employee Retirement Income Security Act to the 15 years and the 40 years. If we make an improvement through negotiations and increase our benefits from, let's say, $9 to $10 per month per year of service, the cost of doing that in Canada would be over the future 15 years, whereas in the United States that can be costed over 40 years. It gives them a tremendous advantage in terms of their pension area.

Mr. Williams: On page two you point out that the pension plans provided by members of your association are benefit-based rather than money-purchase plans, and consequently some of those recommendations dealing with unisex tables and mandatory retirement or survivor benefits don't apply in your situation.

Mr. Meserve: That's right.

Mr. Williams: So I presume that you're not, therefore, concerned as to any legislation along those lines.

Mr. Meserve: The money-purchase people are very concerned about unisex tables, but our plans are not concerned, because with a benefit-based plan both female and male workers receive the same benefit at age 65 or age 62, whenever they elect to retire. So when you say a benefit-based plan, we guarantee that he or she will get $10 or $12 or $14 per month per year of service regardless of who he or she is.

Mr. Williams: But any legislation dealing with those matters wouldn't financially impact on your particular plan.

Mr. Meserve: No. We're saying not.

Mr. Williams: So you have no objection to any legislation coming forward dealing with those particular plans.

Mr. Meserve: We will leave that up to the money-purchase people to deal with.

Mr. Williams: But any other changes in the laws we might recommend that might impact on cost across the board is, of course, a major concern to you at this time because of the depressed economy.

Mr. Meserve: The present economy dictates to us that this is an untimely period in which to increase the costs of our doing business without its having any direct complementary effect on our employees or ourselves.

Mr. Gillies: Mr. Meserve, I'm looking at page three of your presentation again. Your argument against earlier vesting is largely predicated on the fact that you're experiencing a high level of unemployment now so that the employees you do have working are longer-term employees, obviously, who are probably vested. I can see from your point of view that that's a problem.

Do you think there is any way your industry could be flexible in terms of our problem with younger employees? When we brought in the recommendation in the interim report we felt that earlier vesting was a good move, a progressive move, for people entering the work force and very much in keeping with the philosophy the committee has adopted that pensions are a form of deferred wage, that the money the employee puts into the fund should, as much as possible, be available to him at a point of termination or change of employment. I just wondered if I might ask you to elaborate somewhat on the point number one you've made on page three.

10:30 a.m.

Mr. Meserve: We make a statement that we are prepared in the longer term to reduce the vesting period. In our industry, as an example, we usually negotiate with unions for a set number of hours that a person gets a full year's credit for. Normally it's 1,500 to 1,700 hours of work that a person puts in in a year, and he gets a full year's credit.

One of the suggestions we would have for the committee might be to look at vesting after a number of hours' work rather than, let's say, taking the basis of a year. A year defined as what? A year defined as 2,080 hours? A year defined as 1,500 hours? There's a way around this by saying that, instead of one year, it's whether an employee puts in so many hours in that year it would qualify as a year of employment. So five years would not necessarily be five years; he might have to spend seven years with that employer to get vesting. But the cost of a pension is based on the number of hours that employee works.

If we're required to give him vesting for a full year under contract at 1,700 hours, and you say that a year is not 1,700 hours but 2,080 hours, then there's a difference in costing to our member companies. So you could say that five years is equal to 10,000 hours, but if a person doesn't put in 10,000 hours in five years, he puts 10,000 hours in in seven or eight years, he gets vesting after he has worked an equivalent number of hours to five years. That's one way of handling it.

Another suggestion I might propose to the committee would be to take a look at the old age security introduction back several years ago, which reduced the age from 69 to 65 over a five-year period. Vesting might be introduced on the same basis. That is, instead of immediate five years you go nine, eight, seven, six, five years over the next five, which would put it in a time frame that we feel is recoverable.

They're just a couple of proposals that we would suggest when we make the statement that we are prepared in the longer term to reduce the vesting period.

Back in the early 1970s there was a blue paper, I believe, on five-year vesting in 1972, and that got dropped because of the tremendous lobby against the vesting being reduced. We're not against motherhood, and this is really where we're coming from. We feel that there should be a time frame over which this is introduced, rather than being foisted on us at this point in time as a cost to us without any benefit derived from it by our members or our employees.

Mr. Gillies: There was some considerable feeling on the committee that five years may in fact be, in the long term, an interim step, that we could look at three years, two years, one year, immediate vesting. So I'm picking up that, given enough time to adjust, your association may not necessarily be opposed to such a move.

Mr. Meserve: I would like to say that we shouldn't get too far ahead of our major market, which is the United States, and where we're competing. I think the 83-cent dollar gives us some advantages. They have some advantages on their side, and one of them is costing over 40 years versus costing over 15 years, or the fact that some of our benefits have to be fully funded by the year 1989.

These are burdens and factors, because we're not talking of, let's say, $1 an hour in terms of cost; many of our members are now paying $2.50 per hour of work in their plants for a pension plan. That's a very onerous cost to us. So to have that increase through legislation, which would introduce some mandatory things we would have to do, would increase that cost dramatically.

Now, we've got ourselves in that box from our own negotiations. We have negotiated with the United Auto Workers, and they have been a very strong competitor in this area. They have negotiated benefits that now, in 1983, will amount to $18.50 per month for a year of service; and, with their guarantees of so much at age 55 or 62, et cetera, no actuarial reduction at age 62, they've moved the pension field well ahead of what you're proposing.

Mr. Gillies: This is the last question I would like to ask. This does not arise specifically out of your brief. I certainly come away with the impression that, by and large, the employees of your component members are well taken care of in the field of pensions.

Mr. Meserve: Yes. The 54 per cent that you have as a general is not specific in our area. As a matter of fact, we did a survey, and I think that in the response we had, which would represent about a third of our employees, there were actually only three companies out of 100 that did not have not a pension plan. So we're well ahead in terms of our membership.

Mr. Gillies: And so my question arising out of that is that we on the committee feel that probably the biggest problem we

face in the pension field is the coverage issue. There are sectors, there are industries, where the pension coverage is minimal. Certainly yours is not one of them. So I wondered if you might have any thoughts, quite outside the frame of reference of your own association, as to what approach we should be taking in tackling this coverage problem.

There are those on the committee who wish to see the doubling of the Canada pension plan or, at the very least, enrichment of the Canada pension plan. Then there was the provincial universal retirement system proposal coming out of the royal commission report, which I get the impression, certainly in terms of your sector, would be overkill. And then there are certain things we could legislate to encourage the private pension industry to address a lot of the problems we perceive.

I know you have considerable experience in this area, and I just wonder if you have any comments on that.

Mr. Meserve: As far as coverage is concerned, I think you'll find that the employer who does not have a pension plan is a small employer. That is, when we talk about small, by definition, in Ontario I think you would talk about $5 million being a small business, or 75 employees being a small business under counselling assistance for small business. I think this is where you have the majority of the employees in Canada not covered by a pension plan.

The other area is the part-time employee, who does not have benefits of any kind, let alone a pension. I think that in order for you to tackle something like PURS you have to take a serious look at increasing the cost to the small businessman, who may have to incur costs of part-time employees having a pension plan or full-time employees who are at the low end of the payment roll. It's very difficult to put a mandatory program in.

We aren't affected if you put a plan in that does not, let's say, create a base above our members' base, and I don't think you will. I don't think PURS will cause us a problem in terms of most of our member companies. The ones that will cause a problem for us are the small group that do not have plans. Politically, if you say that you're going to introduce PURS and it's going to be mandatory for employers of 50 or more you're still going to have a large section of your employment force in Ontario not covered. You have to get down to the small guys, the commercial shops as well as the industrial places that are small businesses. And that's very difficult to do.

In terms of the vesting, let's say dropping it down below five years, I think you've had a fair amount of resistance, except from the labour movement, to talking about going below five years. I'm suggesting from an employer's point of view and a cost-competitive point of view that we will have trouble if you just snap your fingers and reduce it to five and then go four, three, two and one in the next five years. I don't know when the economy is right for doing anything, but I would strongly suggest to legislators that they take a serious look at the times in terms of whether or not you introduce any dramatic changes.

Other than the five years, I think there's no need for you to really do anything in the pension field. You might loosen up the opportunity for employees to get hold of the money after vesting that they would be able to transfer out of the fund, because one of the problems with employees leaving their money in existing pension plans is that the earnings that are given to those moneys on deposit are not very high.

I think you have a problem there, and I think what you need to do is to loosen that up--move that money into an RSP, but leave it locked in to their RSP. Then they can earn interest on the company's money that has been contributed and the employee's money that has been contributed. They can have the use of that to develop a larger pension plan than they would get under a benefit-based plan if that is all they are guaranteed.

<u>10:40 a.m.</u>

Let us say we guarantee them $10 per month per year's service and they leave us at age 50. We have on deposit the money that we will give them after age 65, but if they have the use of that money in an RSP from age 50, for 15 years, they would probably double the benefit they would receive at age 65 through the usury gain in that money which the employer is not giving them. All we are doing is guaranteeing a benefit. I think that is one of the problems. At age 45 you cannot get your money. It is locked into an employer's plan, and I think that money should be available to the employee for investment, but not available to him until he is 65 or a determined legislated age.

<u>Mr. Haggerty</u>: I just want to follow that train of thought. In other words, you are telling me that with the pension funds the industry has set aside for employees the investment return is not that great now. If it were switched over to a retirement savings plan you would perhaps capture the high interest rates today.

<u>Mr. Meserve</u>: Yes. A year ago they would have been double the amount they would have received or that was being paid.

<u>Mr. Haggerty</u>: Isn't there some place along the line, though, in the trust fund that is set aside, that whoever is handling the investment should be investing in this particular area? Should he not be getting the most return for the money that is available in the pension fund now, or is it locked in for 20 years?

<u>Mr. Meserve</u>: It is locked in at the present time.

<u>Mr. Haggerty</u>: Locked into the 20-year investment then?

<u>Mr. Meserve</u>: It is not locked in to that degree where it could not be transferred out of the employer's fund into an RRSP on the employee's behalf. But right now it is locked in and the yield rate is determined actuarially every three years on the plan. Every three years we are required under law to get an actuarial valuation and certain assumptions are made.

Mr. Haggerty: Just an actuarial valuation and not necessarily an--

Mr. Meserve: No. An employer could decide that he could give usury on that money at a greater level, but at the present time that would be a cost implication to him. It would be better if the employee had the money available in an RRSP. That is, it would be his individual plan rather than still being with the employer, because it leaves the employer with the responsibility of following up and finding where the employee is in 20 years. If he has his own plan, the employer is required to give every vested employee a report within six months of the termination date or the valuation date of the plan.

Mr. Haggerty: Isn't there some way that the investment could be used to build up a larger reserve fund in a trust fund that is set up? I have watched the debenture issues where some of them are 20, 25 or 30 years or something like that. Maybe under the circumstances and the money situation now where the interest rates fluctuate from day to day--there is no indication that it is going to come down to, say, 10.5 per cent that some of these debentures have been bought at. Maybe we should be looking at a 10-year investment or something.

Mr. Meserve: Have you looked at the top 25 companies in the pension field and their performance level in terms of their pooled equities and this kind of thing? It would be very difficult for legislation to come in and say, "You are required to pay so much on employees' deposits--to vest in your fund X per cent interest this year and Y per cent next year." It would be better if the employee had his own RRSP outside that was locked in. It could be a government source. I would prefer it to go to his own because this leaves the capital in effect in the marketplace, not tied up in the government PURS program, or government CPP, or government-sponsored RRSP.

Mr. Haggerty: That is one of my concerns, that perhaps these funds are locked into long-term investments.

Mr. Meserve: There is enough liquidity in all plans that you could cash out a person.

Mr. Haggerty: They are not getting the maximum return under the present economic climate with relation to the interest rates. As high as they are, sometimes I think there may be a considerable shortfall in some of these pensions. Even the industry itself and the employees are going to be caught in a shortfall.

You say at the bottom section of page three: "Indexing is not affordable. We should not be seeking a method to index pensions in the public or private sector." Is there not some place in the present agreement with employees and management that there is indexing applied to wages now in the sense that it is built into their contract?

Mr. Meserve: There are some employees covered under a cost-of-living allowance adjustment.

Mr. Haggerty: That is a form of indexing, is it not?

Mr. Maserve: But we have also stated that as far as our members are concerned, we have negotiated annual adjustments in post-retirement pensions. If an employee has been retired for five years, let's say, in a three-year contract with UAW he might have 50, 25 and 25 in terms of cents per month, so that if he retired at a $10 per month per year benefit he now has in effect $10.50, then $10.75 and $11. But that 50 cents only represents a small percentage of $10. Now, if you talk 12 per cent of $10, you are talking $1.20. Negotiated, we are talking 50 cents, 25 and 25. That is a tremendous cost to our pension funds that we can ill afford to provide.

We categorically say that indexing is not affordable. Even the cost-of-living allowance is being questioned under the negotiations at Ford and General Motors now. Chrysler in particular gave up their COLA for a year and a half under the Chrysler US contract. Paying the cost-of-living allowance on pensions would be just astronomical in terms of cost. At a $10 a month per year benefit, if we gave 50 cents now, it would probably increase our cost by about 50 cents an hour to provide above that to get to a fully indexed pension.

Mr. Haggerty: Looking at an employee who retires and had built into his wages a form of indexing--through COLA and that--and then finds out at retirement that his pension has not been indexed, it would be quite a letdown in income. Going back to getting the most value out of the pension trust fund to capitalize on the high interest rates, if you could get the investment that can work in that particular area then there would be no need for indexing.

Mr. Meserve: We talk about whether we index pensions or index money. Every three years, let's say with the UAW/IAM contract, we negotiate a number of things. Among those things negotiated are improved pensions and every three years there is a negotiated pension increase. That negotiated pension increase, for example, in the automotive industry goes from $16 to $18.40 over the 1981-82-83 period.

Mr. Haggerty: What is this negotiated increase in pension related to? The CPI?

Mr. Meserve: No, it is not related to anything; it is just related to the negotiations.

Mr. Haggerty: There is no factor you try to establish?

Mr. Meserve: No. The union comes at you with a demand and you saw off in the centre somewhere.

Mr. Haggerty: Is it 75 per cent of their actual earned income?

Mr. Meserve: It does not have any relationship.

Mr. Haggerty: No relationship at all?

Mr. Meserve: No. They put a demand on you and you negotiate somewhere between zero and 100 per cent.

Mr. Haggerty: So if you had a good year in the automobile industry, the price is right. And in a poor year you could end up with nothing.

Mr. Meserve: That's right. General Motors hit us very heavily in the 1980 negotiations. In 1983, we expect they will not be after pensions; they will be after job security.

Mr. Haggerty: I have watched some of the negotiations that have gone in the automobile industry and they usually single out one sector. It could be General Motors or Ford, and whoever had a good year is the one that would be hit.

Mr. Meserve: I have been using the UAW as a prime example but, as far as the pension area is concerned, I think the forerunner was in terms of the amount of money that is being provided employees--within our industry and within the automotive industry.

10:50 a.m.

Mr. Haggerty: So in the parts industry it is pretty well associated with wages and pensions of the giant corporations, General Motors and Ford and so on.

Mr. Meserve: Yes.

Mr. Haggerty: They are tied in with whatever goes in the particular bargaining session of that year. You are pretty well tied in with it then?

Mr. Meserve: Yes. There is only one comment I would make about the automotive industry. If you go back to 1965, when the auto trade agreement was negotiated, the concern of the workers in Canada at that time, as you recall, was that they wanted to achieve parity of wages and benefits with their American counterparts. There is a very widespread feeling at the moment that our benefits and wages have outstripped our American counterparts, and that is assuredly part of the debate that is going on at the present time within the councils of the United Auto Workers.

Mr. Haggerty: There are some economists who have stated that because of that agreement of 1965--it had to indicate that for the Canadian economy to survive there would have to be a lower Canadian dollar, based upon the wages gained by the United Auto Workers in the auto industry.

Mr. Meserve: Right.

Mr. Haggerty: So now we have parity--

An hon. member: Parity plus.

Mr. Haggerty: --and a lower dollar and high interest rates.

Mr. Mackenzie: I have one point. I was interested in your position on vesting. I think I heard you make the comment that

it was probably only the labour groups that were pushing for something less than five years and that there might be rather strong opposition to anything less than that otherwise.

Unless I am missing something, one of the things that surprised me is that I don't think there has been any opposition to the five years. I think that includes almost every business group that has been before us. To my surprise, a number of them have taken literally the same position as the labour or community groups: that with the deferred income principle, it is going to go less than that. In one or two cases it wouldn't even bother them.

It has not been the evidence before this committee that we have an uproar over it, including business groups. I was a little surprised at your strong opposition to vesting.

Mr. Meserve: I guess we take a more global look at what our social benefits are in Canada versus some of the other groups that have been here. We feel the pinch. There are other industries which no longer exist in Canada--electronics, the shoe industry, et cetera, which are very depressed--and we don't want to follow suit.

In terms of social issues, I think Canada is well ahead of our compatriots in Japan, the United States and some of the European countries. In some areas we--

Mr. Mackenzie: In some areas we are. What disturbed me in your three-page brief was the inference that we can't afford it--even with the current increases, whether it be UIC or WCB or any of the various benefits we have.

The point I make is that with 38 per cent of your people out of work we would be in one God-awful mess if they didn't have some of these benefits right now. And when I look at the charts you've given us, the percentages, it seems to me that an argument--in this case, which you would probably agree with--that is obvious to most of us in this House is that we sure as hell haven't got our fair share of it under the auto pact or anything else. That is the real problem.

When you take a look at those graphs of yours, it is not whether we have to lay a little more on to the workers because we can't afford the benefits they need. As I said to begin with, thank God we have them now, considering the numbers that are out of work. The real problem is in whether we are serious about value content and so on in this country in the industry.

Mr. Lavelle: I would like to attempt to clarify what we said with respect to the vesting period. I think we made it very clear--maybe we didn't--that we are not objecting to the reduction in the vesting period say to five years. We are saying that in the present time, it is a difficulty because of the particular circumstances in the industry. But we are also saying that we think that five years is good enough at the present time if that is a staged-in arrangement.

I think that what Ken has been saying too is that we don't want to be seen as reactionary employers. I don't think the parts

industry can be put into that position. We are saying we have to watch very carefully the relationship we get into not only with the United States in the benefit packages but also with the Japanese and others. We are simply saying that in relation to those changing economic conditions, we think we have to go slowly in making big changes.

I would also say that in terms of the problem you raised with respect to the automotive agreement, I do not think our particular problems in the industry with respect to unemployment are related to the uncompetitiveness of our working people or our wages and our benefits. I think it does relate to the arrangement with respect to the auto trade agreement. We have to watch our step in this respect.

Mr. Brandt: I had a question that arose out of some of Mr. Mackenzie's comments as well. He did cover one of my earlier questions. But in the vesting situation, are you saying that in order to be on the careful side, we should phase towards five years, or implement the five years and then phase down, as Mr. Gillies was suggesting earlier? From your comments, I was not clear on what you were talking about. We have the combination now of 45 and 10. If you are talking about some form of phasing, what are you recommending in that regard?

Mr. Lavelle: Ken, you go ahead.

Mr. Meserve: We are suggesting that you take a look at phasing down from 10 to five over a future period. Whether it is one, two or three years, it is a matter of saying how you phase down. Beyond that, we are saying to be careful in terms of our competitive position with the United States, where vesting is after 15. We are moving well in advance of the North American norm by moving to five-year vesting. It is a matter of taking it down to vesting when. Do you make it effective January 1, 1982, and you drop it immediately? This creates a cost, as I say, to our members without any benefit, because it changes an actuarial assumption and therefore it changes the cost factor.

Mr. Brandt: Have you, at this point, as an industry made any evaluation of what those costs might happen to be?

Mr. Meserve: No.

Mr. Brandt: I gather there are expenses associated with that.

Mr. Meserve: Right.

Mr. Brandt: But how dramatic are those increases and how difficult would they be--

Mr. Meserve: They are nothing like indexing would be. They are probably comparable to what the joint survivor option changed to a 60 per cent might be. We have not spoken out against that because we feel that the joint survivor option is well in place, but there is a cost to us in moving from 50 per cent to 60 per cent of the joint survivor option.

Moving on vesting is something we feel should be taken seriously in terms of moving towards slowly rather than moving dramatically in one year. Beyond that, it is a matter of saying if you are considering going beyond five, then please take a close look at what is going on in the world rather than what is going on in Canada.

Mr. Brandt: Mr. Mackenzie touched on this, but I wanted to pursue page two of your brief for a moment. I want all of you gentlemen to know that I am probably not alone when I say there are members of this committee, myself included, who are sensitive to and concerned about your competitive position in the total package of considerations which you have outlined on page two.

I also want you to know that there are some very serious comparative evaluation studies done on things like workmen's compensation, unemployment insurance and all of those various things, to make sure we are not putting ourselves into a position where we are not competitive with our normal trading partners.

You make a fairly direct statement that I do not know is necessarily in all cases correct. I wish you had perhaps amplified or expanded the brief to some extent to give us some comparisons in respect to some of those particular categories, affirmative action as an example. There is a cost factor involved here. The United States ran into a great deal of difficulty with respect to affirmative action, just to take one of the ones which you have mentioned.

We were very careful under Bill 7--and there was considerable dialogue on that question--to make sure that we did not have an affirmative action program that was mandatory, but, in fact, was a voluntary program of affirmative action, and one in which the employer would have to make application to the human rights commission and request that they introduce, from the employer's side, an affirmative action program because we knew the US situation was fraught with problems. This is one that I personally worked on as did, I think, some other members of the committee--at least they were involved with it--where I think we took a very responsible government stance with respect to that one in particular. I could talk about others.

11 a.m.

I wonder what your comment is on that, because I believe you have sort of a catch-all phrase there and a paragraph that seems to be rather bitterly critical of some of the things we have done. Yet some of us are concerned about your competitive position, I assure you, and we are not trying to bring in onerous government programs that will reduce your competitive position vis-à-vis the US or Japanese market, or wherever.

Mr. Meserve: I say in the opening paragraph "some of the areas where Canada, in particular, leads the world's social legislation." That is not a criticism. Number one, I would like to talk about affirmative action in some areas of Canada. There are some affirmative action programs in place in certain departments of the federal government at the present time. There are documents providing that.

There is some legislation coming down in terms of other aspects that are probably going to be introduced at the federal level that eventually may get to the Ontario level in terms of consideration. I am pleased to hear that the affirmative action program at least got tabled or pushed aside by the Ontario government, but it has not been pushed aside by the federal government at this point. It is being experimented with at the federal level, and there are documents to show that there are programs in place within certain departments where they are experimenting with affirmative action programs.

Maybe I have made a catch-all list and said "in particular Ontario." I guess it is just a matter of saying there is a long list of items which we, in negotiations with our union persons and in giving--we are talking vacation pay, holiday pay, universal sickness and accidents, the quality of work life, equal opportunities, leaves of absence, time off for bereavement period, personal, we have got a long list of things that appear in the collective agreement which do not appear in legislation.

Within the pension area, the reason we are here and speaking maybe in a negative position is that we do not follow the percentages, that is, 54 per cent of Ontarians are covered by pension plans. We are saying that in our group practically 97 per cent are covered by pension plans. So just be careful in terms of when you address pensions to make sure that where they are being provided you do not increase the cost of our doing business which will drown us in terms of our competitiveness with Japanese and Americans, in particular, as well as some European countries.

Mr. Brandt: I do want to assure you in the area of affirmative action--I can also zero in on the occupational health and safety legislation and some legislation that is pending with respect to hazardous substances and that kind of thing--that there are very long, serious considerations given to what other jurisdictions are doing. It is not done in a vacuum. It is certainly not done in isolation from a recognition of what other areas are involved in.

When those decisions are finally made, they are made, I think, after having balanced all of the factors, because I recognize, as I am sure the members of the committee do, that you cannot develop all of these very worthy social programs without having the economic wherewithal to be able to pay for them. It could be argued if we are in a competitive position, or perhaps if we were in a competitive position that was more advantageous than some other jurisdictions, that we might not have quite the number of layoffs that we have now. So we have to be very careful of those things.

Mr. Lavelle: I would like to comment just briefly, Mr. Chairman, if I may. I think it would be wrong to misconstrue what we said as being critical of programs that have been introduced by the government. In the time that I have been with the automotive parts association I have not appeared with anybody, except on one occasion, before a committee of the Ontario Legislature which was involved in trying to improve the benefit position of Ontario workers.

I think our concern in appearing before this committee was primarily related to the indexing arrangements which are proposed, but I think also very importantly related to the fact that while we have watched in the past our competitive position very closely vis-à-vis our trading partners partners and particularly the United States, the situation has changed radically over the last three or four years.

Rather than taking a view in Ontario that all of a sudden as the economy turns up, if it does turn up in the middle of 1982, it is going to be back to the good times and we are going to be able to re-employ all of the people who are unemployed at the present time and we are going to be able to compete on the same basis as we have competed in the past, the structural changes that are taking place in the prime industries of Ontario are structural problems that are going to seriously reduce our ability to compete on a world-wide basis.

If we are talking about improving the benefit system for our workers and for all people in Ontario, there have to be other components put into place by both the provincial government of Ontario and the federal government in Ottawa which will ensure that we have industries that are internationally competitive in this country.

We are not trying to be critical of improving the social benefit programs for the people of Ontario, for the workers in the parts industry, for the workers in any industry, but we really do have to watch ourselves very carefully in terms of doing these programs and bringing them into place without seeing put into place complementary programs which provide that the strong manufacturing base, which has existed here for many years and in other parts of the country, is maintained.

Frankly, I do not see any willingness on the part of any government in Canada to make those kinds of sacrifices that we have to make at the present time. So we have to be very careful.

While I am talking on the subject of indexing--

Mr. Brandt: Could you back up to one statement you just made? I was going to ask a question relative to any suggestions you might have from the industry sector with respect to government programs that might assist you.

You just said that from your vantage point government was not prepared to make the sacrifices that might be necessary to put the industry back on its feet again. Could you amplify that a little bit and let me know what you have in mind?

Mr. Lavelle: I guess there are two principal problems which I alluded to earlier on and which are not related to social programs. One is the tremendous problem we have with the Canada-US automotive agreement in which we recognize that in 1981 we will have suffered yet another \$4-billion deficit in parts trade with the United States; a \$2-billion deficit overall. The figures we have indicate that in 17 years of operating a trade agreement with

the United States, we have ended up with a $35-billion deficit in auto parts trade.

When you count the thousands of jobs this represents and consider that governments basically have ignored that situation and have let it accumulate to the extent that it has, one understands that our competitive position has been weeded away and that multinational corporations which previously operated in Canada because they were under some obligation to do so, no longer feel that same obligation.

Second is the problem with the Japanese, in which the industry has seen that Japanese imports have increased from the less than 20 per cent a year ago to 25 or 26 per cent this year, in which we have a deficit in that sector of $1.3 billion; and we have shipped less than $10 million worth of parts to the Japanese, even though we have a program in place which provides for us to get reduction of duty if those parts are shipped to Japan.

We ourselves, as well as the labour unions and the vehicle companies, have pointed out that if this continues, this industry, as we have known it in the past, will not return to Canada. The structural changes taking place in the United States indicate that the reduction of the work force will be in the order of 500,000 jobs. But that doesn't seem to raise any fear at all in anybody's mind at the present time that we are still selling on in Ontario or in Canada with the same kind of competitive position that we once had and the same kind of ability to reverse these tremendous deficits. And they exist mainly in the manufacturing sector, which to my last look was basically in Ontario.

11:10 a.m.

Mr. Mackenzie: You should read some of Larry Grossman's answers to our questions, telling us how nasty we are as a bunch of Socialists raising these issues almost weekly in the House.

Mr. Brandt: I think we would probably be well served on your part, Bob, if you reminded a certain party at the federal level about the auto pact situation as well.

Mr. Mackenzie: It has been raised there too, and the Japanese situation has been raised there very effectively.

Mr. Lavelle: I don't want to get into a political dispute.

Mr. Haggerty: You have to get the confidence of the consumer; he's the one who is going to turn this thing around.

The Vice-Chairman: I will interrupt, Mr. Lavelle, to prevent you from being drawn into this partisan political debate.

Mr. Brandt: Are we getting partisan, Mr. Chairman? I hadn't noticed that.

The Vice-Chairman: While you have identified the two major problems and, as you say, they are not directly related to this social issue of pensions that we are dealing with,

nevertheless they do impact. With regard to that latter one, if I may ask a supplementary to Mr. Brandt's question regarding the massive importing, do you feel that some initiatives--I guess it would have to be done at the federal level--by way of imposition of realistic tariff barriers are the only answer to turning that situation around?

Mr. Lavelle: In the short term I believe we will have to change the regulations that are in place. The interesting thing is that at the present time there is a very significant tariff on Japanese cars of about 13 per cent. The government has negotiated restraint arrangements with the Japanese which it claims the Japanese will have kept by the time they come to a conclusion on April 1. At the present time they haven't.

The Vice-Chairman: They were strictly voluntary arrangements.

Mr. Lavelle: They were voluntary arrangements, which did include automobiles but did not include commercial vehicles, curiously enough.

We have suggested that, rather than having an arrangement which limits the number of imports, we should have a scheme that says the Japanese have to go up to a certain degree of Canadian content. We are saying that basically with all the car companies, including Ford, General Motors and Chrysler. If they could not meet those particular requirements, if the Japaneses were not prepared to negotiate a deal, then we should embargo their cars. You can imagine, in making that kind of suggestion, how everybody holds their heads in shame in Ottawa that any Canadian would suggest that we do anything as vile as putting an embargo on Japanese cars.

Mr. Haggerty: Mr. Lavelle, last Monday, along with all the area MPPs and MPs, I met your group. I think you did indicate that you thought the agreement the government had with Volkswagen, with the new plant that is going to be built here in Ontario and parts being made in Quebec, was a reasonable solution to the problem. I thought you indicated that 85 per cent of the materials would be bought in Canada.

Mr. Lavelle: Right. There is a very interesting article in this morning's Globe and Mail in which the treasurer of Volkswagen indicates how significant the industrial development and the job creation will be as a result of the investment by Volkswagen in Barrie. I don't know whether his figures are absolutely correct. The ripple effect of the jobs that are created in the automotive industry is still six for every one created, and it has a tremendous effect when it is a sizeable investment like Volkswagen's. But they have committed themselves to meeting an 85 per cent content level within a five-year period, which we think is very equitable.

Mr. Haggerty: You also mentioned the competitiveness of the industry in the North American climate. I think there is a committee of Congress currently reviewing the automobile situation on the American side as it relates to the Japanese almost taking over the industry in the United States. I believe there was a

person very knowledgeable in the industry, a consultant, who presented a brief based on a study done on the automobile industry in North America and comparing it with the Japanese.

It was interesting that he summed it up by saying that to build a car of similar nature and quality to the Japanese-produced small vehicles, it takes General Motors about 35.2 hours to produce the same size of car. I am just quoting these figures offhand. When it comes to the Ford Escort, it takes about 25 or 26 hours, maybe a little bit less. Omni is also in that area of 25 or a little bit less. Then it comes to the production of the Japanese car of similar quality and size and it is only 15.2 hours on the assembly line.

We look at the welfare or social programs which we have for the workers in the industry in Ontario and Canada and we say, "We do not want to see any increases in this particular area because it will make us uncompetitive." The industry has a long way to go to reduce the output time of that vehicle from 35 hours to 15. That would be something.

Mr. Meserve: That has nothing to do with pensions.

Mr. Lavelle: It has to do with the whole package.

Mr. Haggerty: Regardless of what way you turn, you cannot be competitive.

Mr. Meserve: Not without investment in robotics.

Mr. Haggerty: Investment in new machinery. I think the investment of the automobile industry over the years has been on tooling up. It has been changing the design or the style of the automobile without going into the production area of new technology to increase productivity.

Mr. Meserve: But you are not going to get the investment made in Canada without a change in employment, and pensions is just one small little bit over here in terms of the increased costs of doing business in Ontario.

Mr. Haggerty: Maybe we will learn something from Volkswagen on the productivity which will come out of that plant, or technology which they will engineer over here.

Mr. Riddell: Whatever we do about the Japanese imports, let us not jeopardize the pork exports from this country. I have to support the farmers, Andy.

Mr. Brandt: We will send that pork over in the trunks of the cars we are going to sell them.

Mr. Lavelle: I would make only one comment with respect to what we are proposing with the Japanese, and I think it has to do with the kind of reaction that many members will receive from their constituents with respect to us trying to increase the costs of Japanese products. We are not trying to do that. Under remission programs, if they purchase or invest in Canada they can actually

reduce the costs of their vehicles in the Canadian market and the consumer can buy them at a cheaper price if those reduced cost savings are passed on. We are not advocating that the consumer pay the price of providing Canadian content in Japanese vehicles.

Mr. Gillies: What I hear you saying, the total argument, and it is all tied in together, is if, as a country, we did the research and development to develop the technologies to be properly competitive in the international automobile market, if this were happening, then enriched pensions and all these other things would be that much more viable.

Mr. Lavelle: I am saying that if we get back to the maximum position in which we are truly internationally competitive, in which we have an industry which is exporting beyond the United States-Canada border, in which we have access to other markets and we have developed a program which provides technology from Japan, Germany and other countries in the automotive industry to come to Canada, wnich it has placed in Canada on a permanent basis, then we can look at enriching our lifestyle. At the present time, it is very difficult to enrich it beyond what it is already and to expect--we can do it obviously--to maintain or, indeed, encourage the growth in the industry in Canada.

Mr. Gillies: So what you are telling us is that if we are not careful we will be putting another burden on top of an industry that is already staggering.

Mr. Lavalle: That is what we are saying.

The Vice-Chairman: Certainly the magnitude of your problem is clearly illustrated in the charts you have left with us here this morning. Just glancing at them, this chart indicates world new market vehicle production and shows how the Japanese have moved from fourth to number one in the world in the space of 15 years. Then when you look at the chart that pertains to the imports into the US, Canada used to be 75 per cent and now it is down to 35 per cent, while the Japanese are within three percentage points of that marketplace, as far as importing into the US. It is just incredible--

Mr. Lavelle: It is astounding.

The Vice-Chairman: --the changes which have occurred in such a short period of time. I just note the two other charts there too, if I might, very briefly. There was the passenger car market shares in Canada. Again, there are dramatic shifts there, with the Japanese capturing more than 23 per cent and reducing the North American produced market by about 13 per cent in the space of six years.

11:20 a.m.

The most immediate information about the dramatic increase of Japanese vehicle sales between April and December of 1980-81, shows an increased import of Japanese vehicles by over 50 per cent. As you indicated earlier, the commercial vehicles are even greater, at 67 per cent. These are truly startling figures and clearly identify

the peculiarly aggravated situation you have in your industry that is over and above the general economic doldrums we are experiencing.

Mr. Lavelle: I would just like to make one other point. As you say, Mr. Chairman, the charts are very devastating in terms of the industry and it is regrettable that many people are not aware of the serious situation in the industry. That may be our fault more than anybody else's.

I should say we had an opportunity to meet with Premier Davis earlier this week for an hour or so and we were able to go over some of the charts we have here. He was very concerned about the situation and we are hoping there will be some attempt on the part of the Ontario government to take these issues seriously in the future.

Mr. Brandt: I wanted to ask another question with respect to the Japanese situation so we can get a bit of a handle on it. I think it is important, as you pointed out, in the whole context of looking at the package of benefits we have in relationship to that market and what our competitive position really is.

I would like to hear your comments on the question of reciprocity between ourselves and Japan. Would you be of the opinion that we do have open access to that market in quite the same way as they do to our market, and if not, why not? I would like to hear your comments on that. I realize that is an ongoing debate but it is one that would certainly be of interest to the members of the committee.

Mr. Lavelle: Certainly, the short answer to the question is no, we do not have access. I think we can provide members of the committee with a pretty clear cut delineation of some of the nontariff and tariff barriers that exist in Japan to prevent foreign vehicle companies, regardless of their nationality, from entering into that market. So we do not have reciprocity.

We have a particularly difficult situation in Canada because we have a surplus in trade with the Japanese. We are one of the few countries that does have a surplus, even though it is declining somewhat. When we talk about the idea of forcing or coercing the Japanese to take a more serious look at the Canadian market, there are other factors that come into play--such as the province of British Columbia which is shipping a good deal of its raw materials to Japan--and the pressures do not exist at the present time to come to the rescue of the North American automotive industry. I do not think those pressures exist here, nor do they exist in the United States.

It is curious as well--the figures are available and we have demonstrated them to federal officials--that in almost every other country in the world there are very serious barriers and controls which exist to maintain the domestic market as relatively secure, being an employer of many people in the particular countries in which these industries exist. I am talking about France, West Germany and Spain. All these countries provide for a limited number of Japanese imports controlled by government decree. In those countries, I think generally the automotive industry has remained

relatively active and the unemployment situation has not been as serious as it is in Canada or the United States.

Mr. Mackenzie: Have you taken a look also at the developments in terms of the content requirements in Mexico and what seems to be happening with increased auto parts business in that country?

Mr. Lavelle: We have. Dennis DesRosiers was in Mexico for the association and did a study on the Mexican situation. We looked at it very closely. There are a lot of pros and cons about forcing content rules and regulations in a strict sense as the Mexicans have done it, but certainly from an economic point of view in terms of employment, in terms of their prospects, it has worked in Mexico.

Mr. Mackenzie: What I am really getting at is that with all due respect to any adherence to the free market or free trading positions, the position we are in now is one we will not turn about if we don't require our percentage or our share of the market. It is something that is absolutely out of our hands without government intervention.

Mr. Lavelle: I absolutely agree with you. I couldn't agree with you more. I hope Ottawa eventually gets that message because it certainly doesn't have it at the moment.

Mr. DesRosiers: I think an important point was made--in fact, in this meeting we have tended to concentrate on the very obvious Japan situation and we forget about the "all others" category. If you look at some of the charts, the numbers are less dramatic. Japan has gone from two or three per cent to 30 per cent, but the all others category has also gone from 10 or 12 per cent to 20-odd per cent.

We looked at who was selling automotive parts in the United States. We identified over 150 countries--which includes, of course, all the obvious industrial countries and the so-called developing countries like Mexico and Brazil that are increasing their share very rapidly. You would be surprised at some other countries that are selling significant levels of automotive parts in our major market, North America. There are a couple of very obscure ones, for instance, Leeward Islands has an automotive parts plant shipping into our market. Togo, Colombia, these countries have all recognized the automotive parts industry and the automotive industry generally as a very favourable thing to have within their borders.

Mr. Haggerty: Are they branch plants of one of the larger automobile companies?

Mr. DesRosiers: Generally they start with branch plants and then develop local industry around it. We don't have very much information on it. It is difficult to get.

Mr. Van Horne: Who is backing these, do you know?

Mr. DesRosiers: Usually the government is forcing them in either through benefit programs or legislation requiring content or

local facilities to be built. We have a long list of them we could send to you. We have documented over 100 cases where there is legislation on the books requiring automotive investment within the borders of a particular country.

Mr. Mackenzie: Larry says I must be socialist. We don't believe in intervention in the economy.

Mr. Lavelle: I think we want to make it very clear that we are not advocating government intervention either. We are asking the government to live up to the obligations it undertook when it took the industry into a continental one in 1965.

Mr. Mackenzie: Our fair share. I agree with that, but they'll have to interfere. That's the basic hangup.

Mr. Chairman: As you know, Mr. Mackenzie, the potential for government interference is infinite.

Mr. Gillies: Speaking for the free enterprise party, Bob, I would say you are a little over the line.

Mr. Meserve: While we are off the subject of pension legislation, I would like to make one more pitch in terms of what is happening within our parts industry. For five years, I was director of personnel and industrial relations for Long Manufacturing, and last year was acting general manager of that company. I want to let you know that in 1979 we produced 920,000 radiators. In 1982, we will probably produce 70,000 radiators.

In 1979, we had 500 employees in a plant in Oakville and if you walked into that plant today you would find 82 employees, including salaried workers. That is part of the problem that is happening with our industry. That gives you the percentages, backing up your graphs and your circles and your squares, et cetera. That is the rather dramatic impact on the business.

Mr. Chairman: That is a result of the problem.

Mr. Meserve: There is a combination of things. You can't say it is the result of one. It is a combination of, let us say, 10 things that happened to that company that brought it in effect to its knees at that particular location. That is from 920,000 radiators produced in 1979 with 500 employees, including employees on salary. If you walked into that plant this morning, you would find 82 employees in that same facility.

There are no supplementary unemployment benefits. The SUB fund is defunct as of December of last year. They are strictly on unemployment insurance. If it weren't for one of the benefits of $210 which was indexed, those people would have to work on savings alone. So we are not against social legislation, but we are saying just be careful because this is really what is going on in the community.

Phil and I both come from Brantford, and fortunately in the news this morning the industry and labour adjustment program was announced, so we will probably get some help in that community,

where we have a 20 per cent unemployment factor. That gets us back to pensions. Are there any further questions on the subject of our brief, pensions?

11:30 a.m.

Mr. Chairman: Mr. Mackenzie, did you have a question, or did you get the message?

Mr. Mackenzie: I have been getting the message for some time, Mr. Chairman. I have not been able to convince others.

Mr. Lavelle: We have not dealt with the business of indexing other than what is contained in our brief, and if there was going to be a further discussion, I would certainly like to address the subject for a few minutes.

Mr. Chairman: If you would care to do that now.

Mr. Lavelle: I will not be long. I think that in this day and age to be talking about getting into the field of indexing and not regressing the indexing provisions which already exist in the federal arrangement in the public service is going the wrong way. I say that without trying to sound either regressive or reactionary, or whatever the case may be. I have been in the government service of Ontario for about a year and a half and have worked with the public service, and I do not see that vesting and enriching the existing benefits is going to provide us with the kind of environment in which we are going to improve the performance of the public service in this country.

I think vesting provides people with a vested interest in seeing the current rates of inflation continue to spiral, and I believe if we have a problem in this country it has to be reducing the various inflationary pressures which still exist. I also think in a period of time when we have provided government pensions to the extent that it has increased beyond any level of comprehension the degree of security which our public service operates in, we are really just compounding our problems by going further.

If we are talking about indexing pensions in the private sector, I think our costs will continue to escalate beyond any recovery in terms of our competitive position. So, as an association, the idea of indexing is not one which we support and certainly the idea of going into the whole scale indexing of pensions and indexing which leads on to other aspects of our position and our ability to be able to meet costs, just raises a tremendous amount of fear in our minds as to where we will eventually end up; but we want to leave it very clear with the committee from our point of view that the idea of indexing is not something which we can support.

Mr. Chairman: Would that include or exclude indexing as it presently takes place in connection with CPP and OAS?

Mr. Lavelle: No. We are not talking about that in the sense that the government has provided indexing; I am really making my references to indexing in the public service beyond what is

already existing.

Mr. Chairman: I see, so you are not including those areas in your remarks.

Mr. Lavelle: No.

Mr. Riddell: Have you given any thought to the excess interest?

Mr. Lavelle: I am not sure that I can respond to that in terms of the excess interest. What do you mean by that?

Mr. Riddell: Mr. Bentley, do you--

Mr. Brandt: Here is your big chance, Jack.

Mr. Riddell: I know in my own mind, but I am not too sure I can explain it so that you would understand it.

Mr. Lavelle: I will ask Mr. Meserve because I do not understand it, either.

Mr. Meserve: We have a suggestion with reference to the application of excess interest, and that is if a pension plan has a certain interest experience--let us say for argument's sake it might be 13 per cent--if you then deducted a certain amount for administration of that plan--let us say three per cent--the excess interest over and above what the actuarial assumption is, let us say seven and three, the three per cent additional earnings of that plan could in effect be applied to post-retirement pension expense.

I'll say it again. If you had an interest yield of 13 per cent and an actuarial assumption of seven per cent and you allowed a certain amount for administration costs, et cetera, and for ups and downs, in that year in which you earn 13 per cent you use the seven per cent, you use three per cent and you have three per cent left over, then you could apply that to post-retirement improvement.

Mr. Riddell: Will he get 50 marks or 75 marks?

Mr. Bentley: Pretty close. I think the principle--

Mr. Meserve: Again, a yield of 13 per cent and the actuarial assumption is seven per cent in the plan; allow a certain deduction for administration costs of that plan by the employer and the actuary, et cetera, then the balance of that could be utilized to provide some moneys for post-retirement income.

Mr. Bentley: That is basically correct. The way I would say it would be simply this. The economists estimate that the so-called real rate of return can be anywhere between two and four per cent, depending on which economist you happen to believe. But let's take that as the real rate of return for any pension fund or any other investment. Inflation creates, because of the term you used, which I won't use--usury--up to the levels that we're experiencing now, which a pension fund, by its investment objectives, can turn around to maximize the amount of return that

they can reasonably expect to reasonable objectives.

All that would be considered in indexation would be to say simply this: We will set a benchmark right now, and let's suppose for argument's sake that we set a benchmark rate, a method of measuring. If the benchmark rate happens to be, say, nine and a half per cent and we set a guide rate that relates to the normal rate of return computed by the actuarial profession, which might be six and a half or seven per cent, the difference between that benchmark rate and the guide rate would be the amount that would be applicable in any one given year. This would be measurable by all pension funds. If you do better than that in your rate of return you'd still only have to--

Mr. Meserve: But remember, you cannot make that universal. There are some plans that are not going to make the average, unfortunately. Administration or purchase of the wrong stock or purchase of the wrong investment is going to create a situation where there's no money to be spent.

Mr. Bentley: That is entirely possible.

Mr. Meserve: So just be careful.

Mr. Brandt: Or you could lose.

Mr. Meserve: Yes. You could lose.

Mr. Bentley: But over a period of time, because you would start at that and gradually--

Mr. Meserve: Yes. Self-administered.

Mr. Bentley: --over 10 or 15 years you could work down to a so-called real rate of return by phasing this in over a long period of time. As long as interest rates, yield rates, remain high you could provide a reasonable increase year by year.

Mr. Meserve: I want my comments distinguished from today's presentation, because that's from me as a professional in the field rather than from the Automotive Parts Manufacturers' Association as a position. Okay?

An hon. member: We can accept that.

Mr. Bentley: This is the approach we're thinking of when we talk about indexing. It's not full indexing to the consumer price index or any other measurement that is used outside now.

Mr. Chairman: I think, gentlemen, there has been some difference of interpretation, and justifiably so, in terms of the committee's recommendation concerning excess interest, but I think conceptually we're probably all on the same wavelength. Mr. Riddell, I think, in his question and partial self-response recognized the potential for flexibility within that concept.

Mr. Gillies: Just as a brief supplementary, Mr. Chairman: Ken, what I think I hear you saying is that if the enrichments past

the retirement age are tied to or are part of the performance of the plan itself, you have no particular objection to it. What you're concerned about is some artificial guideline--CPI or whatever it might be; that the plan itself must generate the added funds that allow for post-retirement enrichment.

Mr. Brandt: As a supplementary to that, I think the other thing you're saying is that you're in opposition to a form of indexation that does not have with it the attendant discipline that private plans would have, and I think you're pointing out something I made a comment on earlier in this committee which was perhaps misconstrued by some members when I talked about some federal programs that had absolutely no discipline within those programs at all.

There was no intent to make them anywhere close to being actuarially sound; they were simply indexed to some particular target, and the amount of money going into the plan or to support the plan was simply taken from general taxation as opposed to any kind of pension investment. That's what I had said at some earlier point, if I recall.

11:40 a.m.

Mr. Meserve: The teachers' pension plan with the eight per cent cap per year is one kind of plan that says, "Okay, we'll cap the eight per cent, but if there's a carryover we can spend that eight per cent; if the inflation rate is, let's say, less than eight at some future year then we'll give you eight per cent." So there is a cap within the teachers' superannuation fund.

Mr. Bentley: And there is within the public service fund.

Mr. Meserve: Okay.

Mr. Lavelle: --the cap, I think maybe "indexing" is an unfortunate word, because it certainly provides the idea to people who are talking about or who may benefit by indexing that merely having that aspect provides some assurance that, regardless of whether the rate of inflation goes to 25 per cent, they're not going to suffer because they are protected under those schemes.

I don't know the ins and outs of pensions at all. I only say that if one is getting to the mind-set where everything is going to be indexed then we have no hope, really, of controlling costs, inflation or anything else that's going on in the country at the present time.

Mr. Bentley: But the principle you outlined was basically the concept that the select committee was looking at, and that is a limited thing to start with. Maybe 15 years down the road it will be a different thing. I don't know. But it's a starting point, and all it causes is a redistribution of that so-called excess, above a benchmark or a guide rate, to be utilized for a different purpose than it's presently utilized for. So it's really a distribution of that part above to start with, which could be made to increase, if that were the wish, over a period of time.

Mr. Lavelle: Could I just ask a question? In the public service at the present time in Ontario are their pension plans indexed, capped at eight per cent?

Mr. Bentley: Yes. I know that because I'm supposed to have retired two years ago. But I'm not retired yet; I'm not taking advantage of that yet, gentlemen. I sure as hell intend to.

Interjections.

Mr. Lavelle: The proposals that are made by the commission would change that so that would be a flexible index.

Mr. Bentley: That is something I cannot speak to, because that is a different proposition. Whether the select committee in its final recommendations will suggest so-called indexation or augmentation through the use of excess-interest approach is something they would have to determine in the future.

Mr. Chairman: Gentlemen, if I may interrupt, we haven't made recommendations in connection with the public sector as yet; that will take place in our final report.

Mr. Meserve: I would like to make one more comment about indexing on the basis of a benefit-based plan. Let's say that you go out with a $10 per month per year of service benefit, and in the future has been negotiated for current employees $11 next year and $11.50 the year after. So a person goes out in two years' time at $11.50 per month per year of service. The retiree who goes out this year goes out at $10. He gets an increase, let's say, at the level of inflation at 12 per cent. He gets $1.20 on his $10; he now has $11.20. You compound that with another 10 per cent in two years' time, and he has a dramatically improved pension over the person who goes out in two years' time with a negotiated pension.

Mr. Bentley: What you are doing in your current negotiations--and I have to look at your negotiations at least every second or third year, the results of them as far as pensions are concerned--is, in fact, through the negotiations you have provided a limited degree of indexing.

Mr. Meserve: A limited degree of indexing, yes.

Mr. Bentley: Okay. If you look at the concept of augmentation the way you described it or the way I described it, which are substantially the same, the concept is substantially the same as what you are providing under your current programs, except it is limited. It is not tied to CPI, it is not tied to some outside index that is uncontrollable on your part.

Mr. Meserve: But an active employee under our present program might get $10, $11, $11.50 over that period of time. A retiree will not get the dollar increase; he will get 50 cents instead of a dollar. In two years, instead of 50 cents he will get 25 cents. So the active employee goes out at $11.50 in two years time; the post-retirement increase has amounted to only 75 cents in the same period the active employee got $1.50 more per month per year's service. That at is the concern I would have and that is why

I take the position I do on a personal basis rather than as a representative of APMA, because we do have a problem with a benefit based plan depending on how you use this or index or whatever, because it will affect our negotiations.

Mr. Bentley: I am aware of all that. On page three, you say the American competitors are vested after 15 years. Under ERISA there are three types of vesting provisions. You can select one. I believe in your industry the selection, if I recall correctly, is the same as in Canada, vesting after 10 years.

Mr. Meserve: There is the option of vesting after 10 years, yes.

Mr. Bentley: I think that is what has been negotiated in the programs that have been negotiated with the auto makers.

Mr. Meserve: That was negotiated, not mandatory by law.

Mr. Bentley: Yes, but it becomes part of ERISA once you have negotiated it?

Mr. Meserve: Yes, once you have negotiated the 10 years.

Mr Bentley: Therefore, until you change that and as long as it doesn't offend ERISA, that is what you have to deal with?

Mr. Meserve: That is correct.

Mr. Bentley: So the 15 years in your particular industry isn't necessarily true, although ERISA will permit if that is--

Mr. Meserve: But that isn't an industry-wide situation. That is a situation negotiated by the individual company.

Mr. Bentley: As long as it meets the requirements of ERISA.

Mr. Meserve: At 15 years.

Mr. Bentley: Of any one of the three. If you have negotiated 10 years, in effect under ERISA that is what you have to observe. Here in Canada we just have the one rule, that is the 45 and 10. I just wanted the select committee to know there is a difference.

You also mentioned the difference between the 30-year and 40-year funding arrangements in the states as opposed to 15 years in Canada. I think you should go back a little bit in history and explain this. When ERISA came into effect in 1974, they more or less followed the current funding practice in the states. Our legislation came in long before, at least 10 years before, ERISA and at that time we more or less followed the patterns that were established in Canada. They were different.

You also had a different concept in the states that the cost of your OASDI programs are considerably higher than CPP and so on. When you are talking about the additional cost of pensions, and

since they are integrated in the states the same as you integrate the programs here in Canada, the cost to the supplier is considerably higher because of the much heavier cost which is around eight per cent now to the OASDI program as oppposed to the cost to CPP and Canada.

When you add the two together, according to any studies that I have read, substantially there isn't a heck of a lot of difference between the cost for amortization over a 40-year period when you add in the additional cost of the OASDI program as opposed to the 15 year and the CPP costs.

Mr. Meserve: You are also looking at different indexation of the two plans and you are also looking at, let us say the desire on the part of the federal government to dramatically improve the benefits and, therefore, probably over a period of time it would become more expensive, but that is a federal question.

Mr. Bentley: I am just talking about the situation that currently exists, which isn't quite explained in the program that you had. Built into the permission under ERISA to continue to use the 30-year and 40-year funding schedules, they automatically built in a guarantee fund right at the beginning, under the guarantee corporation.

Mr. Meserve: Yes. For an insured benefit.

11:50 a.m.

Mr. Bentley: That is right. Also keep in mind that the funded ratio of negotiated plans in Canada has been historically higher than what they have been in the United States because the rules may be a little bit stricter, but the ultimate effect is better protection for the employee members of the plan.

Mr. Meserve: The difficulty we have, you see, is that the negotiated rates, let us say, within the auto industry--the Big Three, General Motors, Ford and Chrysler--we have had to adopt in Canada the--

Mr. Bentley: You had to follow the patterns.

Mr. Meserve: Yes. So in terms of the funding costs, they fund over 40 and we fund over 15 the same items. So eventually it is going to catch up to us.

Mr. Bentley: With respect to those negotiated in Canada, they must fund over the 15-year period.

Mr. Meserve: That is right.

Mr. Chairman: Mr. Mackenzie, did you have a question that you wished to ask?

Mr. Mackenzie: The only thing I wanted to clear with you again, when you were making your comment about the indexing, is an area that is of some concern. It is an area where it may have some difference with your position on it. You mentioned at the same time

vesting, or you seemed to tie vesting into it. I am not sure if I was misreading what you were saying.

Mr. Meserve: I was going to give him a kick because he did use the word wrongly.

Mr. Mackenzie: I was just simply going on the fact that without the lower vesting, one of the problems is the workers are not getting their benefits.

Mr. Meserve: Indexing is what he was talking about.

Mr. Lavelle: I was making a strong concerted attack on indexing, period.

Mr. Mackenzie: That is all I wanted to clear, because you did mix it in.

Mr. Lavelle: We will rue the day if we proceed to index everything in this country.

Mr. Chairman: Further questions? Thank you very much, gentlemen. We appreciate you coming before us this morning. It has obviously been a very interesting morning and very helpful to the committee.

Mr. Lavelle: Thank you very much, Mr. Chairman.

Mr. Chairman: Gentlemen, the committee will stand adjourned until two o'clock today.

The committee recessed at 11:52 a.m.

PR-25

SELECT COMMITTEE ON PENSIONS

MINISTRY OF TREASURY AND ECONOMICS

TUESDAY, FEBRUARY 2, 1982

SELECT COMMITTEE ON PENSIONS

CHAIRMAN: Taylor, J. A. (Prince Edward-Lennox PC)
VICE-CHAIRMAN: Williams, J. (Oriole PC)
Brandt, A. S. (Sarnia PC)
Cousens, D. (York Centre PC)
Cureatz, S. L.; Deputy Speaker (Durham East PC)
Gillies, P. A. (Brantford PC)
Haggerty, R. (Erie L)
Jones, T. (Mississauga North PC)
Mackenzie, R. W. (Hamilton East NDP)
McClellan, R. A. (Bellwoods NDP)
Riddell, J. K. (Huron-Middlesex L)
Van Horne, R. G. (London North L)

Clerk: White, G.

Researcher: O'Mara, Dr. J., Legislative Research Service

Consultant: Bentley, W., Superintendent of Pensions, Pension Commission of Ontario

From the Ministry of Treasury and Economics:
Ilkiw, J. H., Senior Economist, Pension Policy Unit
Stouffer, D., Senior Budget Adviser, Pension Policy Unit

LEGISLATURE OF ONTARIO

SELECT COMMITTEE ON PENSIONS

Tuesday, February 2, 1982

The committee met at 10:16 a.m. in committee room No. 151.

MINISTRY OF TREASURY AND ECONOMICS

Mr. Chairman: I guess we should get started.

We have your paper, Pension Coverage: An Examination of the Issues. I was wondering, Mr. Stouffer, if you would be good enough to take the members through that particular production. It might make it a little more understandable for our nontechnical minds.

Mr. Stouffer: Okay. When we were here earlier, back in January, we gave you a set of tables on coverage. What this does is add some remarks to the tables and try to explain how the information contained in those tables should be used.

I mentioned then that we were preparing quite a comprehensive paper on pension coverage in our area. This is not that paper--we haven't got it finished yet--but this is more or less a summary of the directions that paper will take.

With those few remarks I will begin by going through the information contained here. I hope we would just go through them as briefing notes. You may recall my view was that the coverage issue had been exaggerated to some extent, and this document would support that position.

Starting off with the introduction, coverage has certainly been a central issue in the pension debate, but the severity of the problem and the adequacy of proposed solutions has been a highly controversial area. The thesis of this paper is that the level and pattern of coverage we now experience is the result of rational behaviour and that, once placed in proper perspective, the real issue is whether individuals will receive the income replacement they expect. If the answer to that question is no--that is, if the proposed reforms that you dealt with in the interim report of the select committee are not sufficient to provide a satisfactory degree of income for individuals who participate in voluntary employment pension plans--then it may be necessary to pursue the extension of mandatory coverage.

Just to set out a few points here, the paper first gives an overview of the well-known statistics, summarizes the views that were made at the National Pensions Conference in Ottawa and also summarizes the popular viewpoint regarding coverage. Then we develop what we call the market view of pension coverage, which is our primary thesis. The statistical evidence is re-examined in view of this perspective, and a comparison of the optimal versus the actual level of coverage is made. Finally, some available policy options are discussed.

10:20 a.m.

I will move on, then, to the simple statistical overview. Along with the notes, we have reproduced the tables that you had before. The first common statistic is that 40 per cent of the labour force participated in registered pension plans in 1978, and if you would take out those people in the labour force who are self-employed, unemployed or part-time workers that percentage is closer to 54. That's set out in table one, as you can see there. Forty per cent of the total labour force was covered by registered pension plans; looking at paid workers excluding the self-employed it rises to 44.1; taking out the employed paid workers--that is, excluding the unemployed as well as the self-employed--brings that total to 47.9. Finally, just as a percentage of the full-time employed paid workers, the number is 53.8.

In the second table we have a picture of how the coverage in pension plans has grown over time. In 1960, 28 per cent of the labour force were members of pension plans; by 1978 this had risen to 40 per cent. There are also some interesting statistics there in regard to the number of plans. You can see that in 1960--in table two, this is--there were 8,920 plans, and by 1978, 15,095. The peak was actually reached in about 1970 and has fallen there, presumably partly because of consolidation of companies and that sort of thing.

Moving on, table three shows the coverage by sector--that is, public sector and private sector--for Canada and Ontario. The numbers we had were for Canada in 1978 and Ontario in 1976. You can see there that virtually all of the public sector employees are covered: 98 per cent in Canada and 94.8 in Ontario; but in the private sector you find that 30.6 per cent of paid workers in Canada are members of pension plans and 39.1 in Ontario. So Ontario has a significantly higher-than-average participation in pension plans. The key thing there, I guess, is that the coverage is much lower in the private sector than it is in the public sector.

It has been a popular conclusion that coverage is grossly inadequate. Many view the lack of coverage by employment pension plans as the major problem with current pension arrangements, and this has been expressed by such groups as the Canadian Labour Congress and the CCSD--the Canadian Council on Social Development--the province of Saskatchewan and the special Senate committee on retirement age policies. Their contention is that all workers want to participate in employment pension plans and it is only luck or employer beneficence or a strong bargaining unit that determines whether or not they will be allowed to participate. The general feeling is that only by saving through employment pension plans can today's workers provide themselves with adequate retirement incomes in the future and that because of this there should be some form of mandatory employment-related coverage.

Although there is widespread appeal in this argument, opposing viewpoints have been expressed by the Canadian Life and Health Insurance Association, the Canadian Institute of Actuaries and the Board of Trade of Metropolitan Toronto. By examining the characteristics of those who are not covered, the groups conclude that some people would be worse off if they participated in employment pension plans. Accordingly, they find that close to 75 per cent of those who should be covered are, and that the problem is not as serious as it is often portrayed.

That brings us now to a statement of what the market perspective is: the extent and distribution of coverage, the market perspective. Erroneously, many believe that the coverage issue boils down to whether it is desirable that there be coverage for 100 per cent of the work force. The actual fact is that we already have 100 per cent coverage by the Canada pension plan and the Quebec pension plan, so the real question is not coverage but whether this universal source of retirement income is sufficient or whether it should be larger, and if it should be larger, how should that happen: through an expanded CPP or a mandatory plan?

The only way to make a program provide more income to 100 per cent of the work force is through the Canada pension plan or a mandatory plan. We don't anticipate voluntary plans to be adjusted to provide 100 per cent coverage. But to restate that simply, we do have 100 per cent coverage through the vehicle of the Canada pension plan. The question is, is the level of replacement income provided by that adequate?

In order to determine whether it is adequate we have to look at the sources of retirement income from the present system. That is, we have the government program, the old age supplement, CPP, QPP, the guaranteed income supplement and, in Ontario, the guaranteed annual income system; income from private savings such as registered retirement savings plans; and then voluntary employment pension plans and real assets such as businesses, cottages and homes. All of these things figure into sources of retirement income, and this variety of sources provides flexibility for individuals to choose those combinations that best suit their needs.

Because employment pension plans cost, either directly in the form of payroll deductions or indirectly in the form of lower wages--that is, lower take-home pay, fewer benefits or fewer jobs--some individuals choose not to belong to pension plans. Furthermore, some people, such as lower-income earners, who would be eligible for income-tested GIS payments, would be made worse off if they were forced to save for their retirements from their low incomes.

Finally, everyone has the opportunity to take advantage of tax incentives offered to individuals who save for their retirements. Those who do not contribute to an employment pension plan can pay as much as $5,500 into tax-deductible RRSPs.

Ultimately, coverage by voluntary employment pension plans is rational, and any moves to alter this distribution would work against the preferences of those whom they would be trying to help. By re-examining the available statistical data and by drawing upon additional information the validity of this perspective will be demonstrated. What we are saying here is, our view is that the system as we have it now reflects the many different factors that operate in the economy, and now I will show how those are borne out through the statistics--that is, the empirical evidence.

So this section, which starts on page eight, is to re-examine the statistics in the light of this market perspective, which says that employee coverage is at or near optimum levels. What this says

is that for the most part those who should be covered are, and that there are several good explanations of why some people don't belong to employment pension plans.

The first set of tables, tables four through nine, examines the various statistics. We'll look first at table four, then at table nine and then come back a little bit to five, six, seven and eight. The first table, which is a well-known table and a table I presented earlier to you, shows the participation of employed people between the ages of 25 and 64.

In table four we have the total number of people employed between the ages of 25 and 64 at the various income ranges shown. Then we have the number who are covered by registered pension plans, RPPs, or RRSPs, registered retirement savings plans. We haven't separated those two groups out. This is taken from the Arnold Shell report to the Canadian Institute of Actuaries.

10:30 a.m.

Looking at that you find that at the low income level--we're calling one half the average industrial wage low income--only 15.1 per cent are in pension plans or RRSPs. Moving up to between one half and one times the average industrial wage you have 50.9, and as you move higher the percentage covered becomes larger.

Table nine gives you some kind of feeling for how many people are in those groups. This is based on 1976 data, and in 1976 the year's maximum pensionable earnings under the Canada pension plan was $8,300. So we find that 38.2 per cent of tax filers were at or below the year's maximum pensionable earnings.

There was a fairly large discrepancy between the year's maximum pensionable earnings and the average industrial wage at that time. The year's maximum pensionable earnings was roughly 70 per cent of the average industrial wage. But at the average industrial wage 60.7 per cent had incomes below or at the average industrial wage, and as you move up farther to one and a half times the average industrial wage, which was $17,850, 84.4 per cent of tax filers had incomes below that. You can see by matching up table nine with table four that there is a significant number of people in these lower-income categories.

Looking at tables five through eight we find some mini-snapshots of the average incomes of individuals in various age groups. Table five has the income for married male Canada pension plan and Quebec pension plan tax filers. You can treat this as a snapshot of what their earnings history could look like over their lifetimes. That's not really perfectly accurate, but it's not a bad proxy; it's the best we can do right now. Rather than follow the individual right through his career we take a picture in time, divide it into age groups and say that on the average an individual most of the time would follow in this pattern.

You find that married males have incomes, on average, above the average industrial wage except for the years when their ages are between 18 and 24. So their average goes above the average industrial wage in each of the age cells above that. If you look at

the statistics below, you'll find that a relatively large number of the population are above the average industrial wage. For example, there are 1.254 million people in Canada working in the age group 25 to 34, and among that group 807,000 are above the average industrial wage and 447,000 are below it. You will find that these individuals, married males, are for most of their working lifetime substantially above the average industrial wage.

It is not surprising that when you come to the next table, table six, of the single male tax filer, he doesn't have quite as large an income. It is this tax filer between the ages of 18 and 24 and 25 and 34 whose average is below the average industrial wage. Then in future years he is only marginally above the average industrial wage. So being married seems to be an impetus to have a higher level of income. Bear in mind that we are trying to get these statistics together to give you a picture of who participates in pension plans, who does not and who should and should not.

Mr. Riddell: Why should it be that a married person has a larger income?

Mr. Stouffer: Larger responsibilities. A married person will probably have a family to support so the pressure is there to get out and earn.

Mr. Riddell: Get a job, stick with it and take the promotions as they come.

Mr. Stouffer: Yes, that is what I presume would happen.

Mr. Riddell: A single person is more mobile.

Mr. Stouffer: A single person doesn't have the responsibilities. He can get along with less.

Now you move over to females, married female tax filers, and you find a very interesting picture. At no age does the female married tax filer have an average income above the average industrial wage. You will see the graph there is well below the line for the average industrial wage. This group makes up a very large part of the uncovered group. It is also interesting that single female tax filers are still below the average industrial wage. Although they are above the married females, they are below the average industrial wage. So they too form a large part of that group in the uncovered working group.

If you try and put together in your minds the five tables, you come out with the obvious conclusion that the males have higher levels of coverage because they generally earn more and work more consistently. Few females earn more than the average industrial wage in any age cohort and this explains to a large extent their low levels of coverage.

What we have done in the next series of tables, starting with table 10, is to take a look at the industry--

Mr. Mackenzie: Going back to table eight, that also describes why single females are in the most desperate situation in society.

Mr. Stouffer: That's right.

Looking at table 10, by industry, we have taken Statistics Canada material here and tried to determine what percentage of paid workers are covered by the various industries. Agriculture obviously has the lowest. Trade would include the retail business, and it has a very low level of coverage. But there are higher levels of coverage in things like mines, quarries and oil wells, that sort of thing, where there is a high level of union involvement. Then in public administration we have 98 per cent. So that gives you a flavour of the types of industry that are and are not covered.

If you combine that with the kinds of firms, the sizes of firms in table 11, you find that of the firms with plans there is virtually 100 per cent coverage for firms with 1,000 or more employees. That may not be too hard to believe. In fact, for firms with 100 or more employees it is not far off 100 per cent. We are talking about 92 per cent between 101 and 999 employees among salaried and 84 per cent among hourly. So there is a very high level of coverage for firms with more than 100 employees, but it drops off for smaller firms.

The lowest coverage is among employees of the smaller-sized firms. Some 85 per cent of the membership of the Canadian Federation of Independent Business employ fewer than 20 people. They have less unionization, they are concentrated in industries with a less-skilled, younger and more mobile work force. The firms themselves are younger. CFIB says that more than 35 per cent of the firms are less than five years old. Those firms derive less of a tax advantage from offering pension plans because it may not be very profitable, and they have less sophisticated administrative machinery.

10:40 a.m.

They also favour money purchase plans. In 1976, money purchase plans averaged 26 members per plan and accounted for 45 per cent of all plans, but only eight per cent of members. So that tells you a little bit about the kinds of firms that do not have coverage.

Moving on to table number 12, coverage by age and sex in Ontario. Here, as we move up, you can see that between the ages of 18 and 24--students were taken out of this, by the way, as well as members of the armed forces--29.1 per cent of males and 24.6 per cent of females, or an average of 27 per cent, are members of pension plans. As you move up and get into the higher groups, ages 55 to 64, 80.5 per cent of the males but only 44 per cent of females are covered.

The table shows that younger people tend to earn lower wages and this explains the reluctance to join and the lower levels of participation in voluntary plans. In addition, we have the effect that females generally earn lower incomes and in some cases they work to supplement the family income, often towards a specific goal such as to pay off a house. However, as their attachment to the labour force changes and becomes less marginal, so too will their

preferences for pension protection. That might be an explanation in table 12 for the slightly lower level of female participation between the ages of 35 and 44.

Mr. Brandt: Could you give me the explanation again as to why that figure for the female labour force is 35 per cent?

Mr. Stouffer: That is the area where they are homemakers; where they probably have more part-time jobs, that sort of thing. They may just be a marginal attachment to the labour force. The career types will, of course, be going right on through, but there are a lot of peripheral people who may opt out to look after family during that period of time, but still keep a part-time job which is not covered with pension. That is one area of possibility.

Mr. Brandt: I ask the question because we are, of course, looking at the problem of the dropout provision. That would appear to be the area where it impacts most heavily, where they have opted out of the labour force for family reasons or whatever, and then perhaps after the child-rearing years they have come back into the labour force.

Mr. Stouffer: Yes. You have to remember this is a snapshot in time, but it is a basic scenario that perhaps gives you somewhat of a picture of what is happening out there.

Mr. Brandt: Okay, thank you.

Mr. Stouffer: Moving on, another thing we indicate here is the point that the plight of the current elderly female person should not be compared to the situation for the future female retirees because there is an increasing number of women in the labour force who are earning pensions. There is also the Canada pension plan to alleviate that. Women have a greater opportunity and also incentive to make their own provisions for retirement. So we see the current elderly female situation as largely a product of the social situation perhaps 40 years ago.

Mr. Mackenzie: Can you actually make that argument though? The fact is that we have seen very little gain over a good number of years in terms of equality of income for women. Even when more of them are in the work force they are still the low paid workers. What you are going to end up with in terms of adequacy is the bottom rung of the ladder once again. I think we have made so little progress really in 20 years in terms of shrinking the difference, and I am not sure you are going to narrow that gap that much in future.

Mr. Stouffer: I would agree with you that there is a large gap remaining. We have obviously made some progress. The very presence of the CPP is a help for their incomes. The presence of survivor benefits in the CPP will make the future retired elderly widow better off than she would have been 40 years ago.

Mr. Mackenzie: Except for the CPP and OAS you still have two complete classes, an extremely low-paid class and a much higher paid class. That shows clearly from your tables and it is going to have an effect in terms of income. Another thing--and you may be

going to cover it--nowhere do I see anything in what you have here, other than a mention that adequacy as well as coverage is an issue, that gives us a handle on the fact that while the numbers you have may be covered with pensions we have no way of knowing how much they are actually finally getting out of their plans. We have had some awfully low figures, even in the guesstimates given to us there. In other words, some of us right here have been in five different plans, three or four of which we will never collect a cent on. So we may end up with a very small pension, even though we show as being part of those who are covered.

Mr. Stouffer: We dealt with that just momentarily at the beginning when we said that the coverage should be effective. What we are trying to get at here in this particular paper is who can be a member of a plan. The next question is, how do you make that coverage effective to provide a reasonable rate of income. We will talk about that a little bit later.

To examine these coverage levels we are going to look at what is optimal and what we actually have. So our statistical examination has revealed that those who lack coverage are primarily young workers, mobile and part-time employees, female and low-income earners. Their lack of coverage is explainable, rational and is likely to maximize their utility.

Mr. McClellan: What does that mean, the clause "likely to maximize their utility"?

Mr. Stouffer: If they had a choice to join a pension plan, the young worker is probably better off not to. He needs his capital, okay? I am saying he is making a rational choice here to maximize his utility. The lack of formal voluntary coverage does not necessarily mean these identifiable groups will have no retirement income. As discussed above they will receive some income from government sources. They also may be saving accumulated assets, RRSPs et cetera. Also a point in here is that as they move through time many of them will move into covered employment as their income rises.

Mr. McClellan: Sorry, I am just trying to follow you. Are we talking about the same groups as in your first set of categories?

Mr. Stouffer: I am talking about the groups that appear in that first point--the young workers, the mobile and part-time force.

Mr. McClellan: But you say in the second point that their lack of coverage is rational.

Mr. Stouffer: No, it is explainable.

Mr. McClellan: Okay. And you say in the third point that they will take advantage of voluntary options. Is that not a contradiction?

10:50 a.m.

Mr. Stouffer: No, we are saying that as these people go

through life they will perhaps pick up pension income or retirement income through vehicles other than pension plans. If they never belong to a pension plan they will have some savings, and they will be buying RRSPs and that sort of thing. Another point which I do not have down here is that as these people move through time they enter employment where there is coverage.

Let us take table five for the married male case. If you looked at that as being a life cycle earning pattern, he is not going to have any coverage in the low income and low age years, but as he moves to those higher levels of income, it is very likely that he would be in employment plans of some sort. The people who are uncovered are largely young people. Those young people are not always the same ones.

To just give you some feeling for coverage targets, if we eliminate certain workers we come up with different target levels. For example, supposing our coverage target is 100 per cent, but we would choose not to have those workers who are younger than 25 or older than 65. That would exclude 29 per cent and bring the target down to 71 per cent. Then if we took out married males who earn less than threequarters of the average industrial wage and single earners who earn less than one third the average industrial wage, that group would further be reduced by another 25.38 per cent, bringing the target down to 45.62.

This is a very imprecise kind of calculation, but it strongly suggests that the present levels are not far off the optimum ones. That is, if we felt it was undesirable to cover workers younger than age 25 or older than 65, and to cover low-income earners at the suggested levels there of low incomes as threequarters of the AIW for married males and one third the AIW for single workers, we would not have coverage too far below what we have now.

Mr. McClellan: You managed to get rid of a number of your problem categories, but you have not got rid of your low-income women have you?

Mr. Stouffer: Among the one third average industrial wage, the single workers there that we take out, that is largely women, low-income women.

Mr. McClellan: I just wanted to understand what you are doing here.

Mr. Stouffer: Let us just go back.

Mr. McClellan: Because it seems to me that you are being selective in who you are eliminating.

Mr. Stouffer: I am eliminating them for these reasons. That is what we need to discuss. The first group that we are eliminating are persons younger than age 25 and older than 65. The reason we eliminate younger than 25 is that they have 40 years left of their earning lifetime when they can save for a pension. They have a high job mobility during that period of time, their attachment to the labour force is maybe questionable for students and that sort of thing, so let us just say we do not have to

provide coverage for under 25. Over age 65 they are most likely retired and they do not need to be accumulating pensions.

The next group that we are taking out is more--there is a larger judgement here. If you take out the married males who earn less than threequarters of the average industrial wage, that would be considered to be a pretty low income, and they will be already accepting government support in certain areas. For example, they would have, in most cases, free OHIP. Of course they would have a child tax credit, that sort of thing, where we are already subsidizing them. Forcing them to save for a retirement pension may not be all that desirable.

The pensions that they presently derive through OAS, GIS, GAINS and CPP probably provide 100 per cent replacement, or close to it. So that is the reasoning for that group, and similar reasoning applies for single workers who earn less than one third of the average industrial wage. We are saying these people, their attachment to the work force is very small. These people are largely part-time females. They are working perhaps for specific needs. Having a pension income derived from that level of earnings may not be desirable. We are excluding those people. If you take that out, then you would find that the target for coverage should be about 45.62 per cent.

We went through that gyration simply to give you some kind of feeling for a suitable target, because it seems very reasonable that it is not 100 per cent.

Mr. McClellan: Can you give me a breakdown between the poor married males and the poor single workers in percentage terms? You have a total per cent for those two categories of 25.38 per cent. Can you break that down between the two categories?

Mr. Ilkiw: We can generate it for you because the tables were originally broken down by male and female classifications, but we do not have that at our fingertips.

Mr. McClellan: Could you?

Mr. Ilkiw: Yes.

Mr. Stouffer: There is one key area that we have identified that does not have coverage but probably should and that is the middle and upper-income earners who work for small employers. Rather than have a solution to the problem that is relatively simplistic, we should target it better and direct efforts at particular areas of need.

The conclusion that comes out of this is that the coverage is not as serious a problem as is popularly portrayed. In fact, the distribution and level of coverage by employment pension plans is not too far from what could be considered an optimum level and in all likelihood reflects the choices and preferences of the labour force participants. By labour force participants, we can also include the employers.

What we really come to is an identification of what we

believe is the real problem and that is, is the existing coverage effective? That brings us to your point, which is that you can be covered by a pension plan but never derive a pension. That is the thing that has to be stopped. Is existing coverage effective, in other words, specifically, will individuals covered by employment pension plans receive the benefit that they expect and have planned for?

Mr. Riddell: It seems to me we are kind of adopting the attitude that once poor always poor. The thing that I cannot reconcile is, why are you excluding the married males who earn less than threequarters of the average industrial wage and single workers? What we are saying is: "That's tough. You have gone through life working below the average industrial wage. You will have no pension coverage when you get older other than the old standbys, the old age supplement and what not." I think these are the people we should be concerned about. I just cannot see us wiping them off the slate and saying, "Well, you are poor and that is the way you are going to spend the rest of your life."

Mr. Stouffer: That is a way of looking at it. We were not saying, I do not think, that because you are poor you are going to stay that way for the rest of your life.

Mr. Riddell: Even in retirement, what pension do they have, or can they even expect, other than the old age security and some of these things that are maybe going to provide the basic needs but no more? It is certainly not going to give them--

Mr. Stouffer: There are two kinds of classifications of people in that group. The first classification I will deal with is the person who is lifetime poor, all the way through. Existing government programs that we have would keep him at that same level for all his life. Whether he can expect to reach heaven a little sooner for the last few years of his life by having an income higher than his lifetime level of earnings is a different kind of a question. I do not think that would be desirable. We are saying that for the person who is a lifetime low-income earner--all the way through his lifetime--the programs we have now adequately provide for him in retirement years.

11 a.m.

But there is another class of person and that is the person who will move out of that status. When he moves out of that status, he would move perhaps to covered employment. What you want to be concerned about there is that covered employment really yields a pension when he reaches retirement age.

For the lifetime low income earner, there is a big question in my mind whether he can afford, if he is at a level below threequarters of the average industrial wage, a married worker at that level, he has no disposable income, he is already being subsidized.

All we are doing, from a government perspective, is if he were to provide income for himself in retirement, our level of subsidy to him now would likely have to go up because if he would

be allocating disposable income to savings in his working years, that would simply reduce his benefits under guaranteed income supplement and the guaranteed annual income system programs.

Essentially, what government then is doing is if we have to subsidize him for his savings during his working years he would not have as much GIS in later years, and we are simply prefunding his Gains payments.

Mr. Riddell: The thing that bothers me, and I am a little hesitant even expressing it, lest I be considered to be a socialist, but here we have this low-income earner, who is there through no choice of his own, I feel. It is probably people we need--people who are maybe doing some of the menial jobs that have to be done--so he really has nothing to look forward to when he retires, just reliance on a government program to provide him with some basic needs.

But here we have the guy, through whatever means, maybe he was able to get a better education; he was able to get a better job; and was able to make a higher income; and able to contribute to a pension plan; and ends up with a pension that is going to give him a higher standard of living. I cannot seem to accept the fact that we are going to put these low-income people into a category that can do no better in retirement--just be able to keep a roof over their heads and buy a little bit of food--simply because they happened to work at jobs that have to be done and through no choice of their own they are doing that kind of work. I am sure this is socialistic philosophy, but that is the thing that bothers me.

Mr. Chairman: I would not jump to that conclusion, Mr. Riddell. I guess you would have to be more specific but I would think you would have a concern about deducting from the meagre wages that they did make a contribution for a pension plan which would not really assist them in any material way when they did retire, in terms of income replacement.

Mr. Riddell: I see both sides of it. I do not know at this point what the answer is.

Mr. Chairman: You get married or get older. There are all kind of answers in there if you look at the table.

Mr. Van Horne: Does one guarantee the other?

Mr. Mackenzie: I am wondering if Mr. Stouffer can give us any better answer than Mr. Bentley was able to come up with in terms of the amount of pension that you are actually likely to get in terms of the private pensions. We have had old figures from the congress that had it down as low as 10 or 15 per cent and I think the last figures we got from Mr. Bentley is probably more like 20 per cent. Taking into account the number of plans you are likely to be in and never collect from in terms of a pension, it seems to that adequacy is a major factor and is involved in the whole argument as well.

Mr. Stouffer: I cannot give you any numbers of the top of my head. I would guess Wells probably got his from the royal commission.

Mr. Bentley: Most of mine came from Quebec.

Mr. Stouffer: All right, from Quebec. We have commissioned a study to take a look at reforms, what impact they would have, the reforms proposed by the interim select committee report, which is really an extension of the Sahin-Balcer study that appeared in the royal commission report. We can't give you absolutes from that. All we can do is give you indications of how things could improve relatively. I really can't say whether you can expect 20 per cent--

Mr. Mackenzie: My suspicion is that a hell of a chunk over and above the people who were just in effect discarded here as not being part of the target group, and which are the four, I suspect there is a sizeable chunk of those who are in the category that we have not discarded who really also, and part of this goes back to--

Mr. Stouffer: End up to be uncovered.

Mr. Mackenzie: --reminds me of my constituency, people coming in who thought their pensions were adequate, who really now and for a number of years to come are in that category that has the coverage but which is far from adequate.

Mr. Stouffer: That is exactly what we have identified as being the problem. We have to fix that so that the individual gets a fair shake if he does belong to a pension plan. The five-year vesting that is proposed will help. It won't do as much as one-year vesting, but I think perhaps we will evolve to even better standards as we move through time. It is very clear. That is the big question.

Mr. Mackenzie: There are two questions, that and the people we are in effect excluding, and really, whether you like it or not, condemning them to remain poor.

Mr. McClellan: It is not an original argument with the committee. A number of business delegations have argued here that the coverage problem is relatively easily solved by eliminating a certain percentage of the population and saying that they are basically outside the market. You have presented a very sophisticated formulation of the market perspective.

For some of us, and even I guess for some of us at both ends of the political spectrum, if I may say, it represents a problem that you are eliminating such a large group of the population as incapable of participating in pension arrangements through the market. So they are relegated to the welfare sector. I don't think that is an unfair way of describing what your analysis is all about.

Mr. Haggerty: What is your alternative?

Mr. Gillies: The way I see it we are all heading in the same direction in terms of what we would like to see. In the interim report, as David mentioned, we took some very tangible steps to remove barriers to people keeping their own money and having some benefit from the money that they themselves have put in

down the road, and so a lot of the problems that you and Bob have cited I think will actually be ameliorated somewhat by earlier vesting, portability arrangements and so on. The problems that Jack has raised--

Mr. Mackenzie: We are talking of 30 years down the road in most cases.

Mr. Gillies: True, Bob, but what do we do? The problem Jack has raised is we have an immediate problem with a certain "class" of our citizens, and how do we deal with it. We looked at PURS and some of us came to the conclusion that in effect we were just going to be taxing back a lot of the benefit that the lower-income people get from OAS, GIS and Gains. CPP is certainly an option, but then you get into the cost consideration and so on.

I think Jack has hit the nail right on the head, except it is going to take some real fine-tuning to come up with exactly what the answer is to address the short-term problem--because you are right, Bob, some of the things we did in the interim report won't become manifest for some years and in the medium and long term.

Mr. Mackenzie: I am not even sure when we will get legislation--

Mr. Gillies: I would like to see it tomorrow. I would hope very soon.

11:10 a.m.

Mr. Ilkiw: We were going to ask how you would solve the particular problem with the low-income earner. I think the response that I would have given was essentially given by the member over here; that if you look at an individual's welfare over his lifetime, what you do is say, "What is his lifetime earning span, its present value and future income?" Any particular avenue that seems to solve this particular problem that you think these individuals should contribute must have some kind of nongovernment income tested retirement income when they get over age 65, you cannot help but lower their lifetime earnings.

Perhaps the proper place to solve this problem--again, it is not a pension problem, perhaps a labour market problem--is to try to reduce the number of low-income earners. That is not a pension problem; it is a problem of other jurisdictions.

Mr Haggerty: Increase the minimum wage, then, to a certain percentage of the average income wage.

Mr. McClellan: One way of defining the problem, or to look at the problem, would be to examine it and see it as a woman's problem. It is probably the position of women in our society. I am not sure that is a politically acceptable solution--at least, I hope it is not; I mean that quite sincerely--to write off such a large constituency and say: "The market is working fairly well for most people, sorry it is not working for you. We are going to set up the most humane welfare programs we can afford and that is what you are going to be stuck with."

It may in fact be a politically acceptable solution but, as I said, I hope it is not. I think there are alternatives which our committee will be looking at that place less reliance on the market and, secondly, less reliance even on occupation-based arrangements, and will rely more on universal programs, specifically on old age security.

Mr. Chairman: Mr. McClellan, are you suggesting a welfare approach as opposed to a pension approach?

Mr. McClellan: What you mean by welfare and what I mean by welfare are entirely different things, with respect.

Mr. Chairman: I do not know.

Mr. McClellan: I do. We have had discussions over the last seven years and I think I know what our approaches are. I have made my point. I do not want to labour it. I just do not want to relegate retired women to a second-class status. It seems to me that if you rely exclusively on a market perspective, that is exactly what will happen.

Mr. Stouffer: I think what we have been trying to say is that their income in retirement is somehow related to their income during their working lifetime.

Mr. McClellan: Of course.

Mr. Stouffer: The second part of it comes out from the fact that they get something from GIS and Gains. That is what brings in the second-class part of it, but, in a sense, they are second-class all the way through. If they have had very low incomes they have been subsidized through the tax system as well, but maybe not quite as obviously.

Mr. McClellan: But you are going to have two problems for a long time, and the two problems will impact principally on women. The first part is the question of coverage, and the second is the question of adequacy. Even if our reforms that we identified as necessary in our first report were implemented today, it would still take I do not know how long--you would know better than I--25 to 30 years before the reforms in vesting and portability started to have any kind of impact at all. Even there, once the time factor has worked itself through, there is still a problem of relatively low benefits to women, even those who are above one third of the average industrial wage who are included in the market arrangement.

Mr. Ilkiw: Just as an observation, what I see you portraying here is what I would consider to be an exceptional case--one woman at the age of 18 leaving school and employed at one third of the average industrial wage for the rest of her life, never rising above that, never getting married, never having any kind of family arrangement and becoming a bag lady on Yonge Street. I think that's a bit of an exception.

I see women going through their lifetimes, and I observe my neighbourhood and other neighbourhoods, and they are part of a family relationship and once age 65 comes up there is a whole

spectrum of assets. That particular woman who was earning that one third during her lifetime is probably married and there are family assets in the form of a house or a cottage. There could be the pension of the husband who might be a doctor or a civil servant, or could work for a manufacturing company. You have to look at the whole life cycle and how people relate.

I don't think you can design a policy for rather exceptional cases. You have to recognize that people accumulate a spectrum of assets ranging from OAS right up to dividends from blue chip stocks. To zero in on one particular formal source of pension and say this particular person, who is exceptional, only has one avenue of pension income, I think there are a number of fallacies in there. You have to step back and look at the whole spectrum of savings available to these individuals when they retire.

Mr. Mackenzie: How much of that saving can any of them do? There are 2,000 houses in Roxborough Park in my riding. Fifty-nine per cent of them are now single parent families and almost all of them, with a few exceptions, are in trouble. Their possibilities, along with a hell of a lot of other people, of even getting one of those diversified assets, a home--excluding them even, some of the young people in my riding--are going down.

There is less likelihood today than there was five or 10 years ago that they will ever have a home as part of their assets, and when I see the number who are losing their homes after 14 years of living in them--one of the last families I had--then I know damn well they have got nothing in the way of additional assets. These 2,000 people, of whom almost 60 per cent are single parents, are never going to have any money to save. It is a day-to-day existence, as it is now, so there is no way along the road that most of those people are going to save.

Mr. Ilkiw: Then you are caught in a bind. Any action that requires them to save today can only lower their living standard today and thus you have to rely on some sort of floor income system once you are over 65, and they are already in place.

Mr. Mackenzie: It's one of the reasons why (inaudible) so that you are not also seen to be a welfare recipient and there is a stigma there, even for older people in Gains and GIS too, let me tell you. There has got to be some dealing with our old age security as part of reform. That seems to be universally accepted. It seems to me it's a major component in whatever package we are putting together if we are serious about taking a look at these kinds of situations.

Mr. Gillies: I certainly concur with what Mr. Mackenzie said in terms of the plight of the single woman householder. So the question I bounce back is, if we identify that as a problem client group, which it most certainly is, and, as Bob pointed out, they don't have the capacity to accrue real assets to themselves and this sort of thing and, generally speaking, they are already largely dependent on public welfare schemes of one kind or another, FBA and dependants' allowance and so on, then the question becomes to me, if the system we are providing now for the maintenance or the assistance of people in that particular category is not the

best answer, do you gentlemen have any thoughts as to what might be improvements on it?

As we have already said, the concept of obliging them to contribute to some sort of mandatory pension plan is probably detrimental to their lifetime earnings as it is, which are already severely pressed. What can we do that will improve the situation for them? I'm telling you, I don't have an answer. I don't know what it is.

<u>11:20 a.m.</u>

<u>Mr. Stouffer</u>: The concern seems to be that if you regard the levels of income provided through the guaranteed annual income system program as being an acceptable level then the problem seems to be how that income is perceived, and a second-class citizen comes in. I think you have to come to grips with how much credibility that argument has.

One thing you could do, perhaps, is to say, "Okay, everybody gets, let's say, $10,000 a year from old age security" and then have a very high tax-back rate on that $10,000. That would be one possibility: 100 per cent tax-back for Canada pension plan, let's say, and your first $5,000 of other income. That looks very nice from the perspective of getting rid of some of the stigma attached to welfare, but it creates disincentives, probably, in other areas. People would be very disinclined to have any form of savings. So it seems that at any point when you come and target a government program to a specific need area I see no way of eliminating the stigma attached to that.

<u>Mr. Gillies</u>: Yes. It's interesting that you mention the whole area of tax credits. I was just talking to Mr. Brandt a minute ago, and if we identify that stigma as a major problem--and quite frankly, Bob, I'm not as convinced that it's a major problem as I think you are, because there are a lot of people in my riding who contact me about obtaining various kinds of assistance, and a lot of them just say to me: "Look, these are the circumstances I am in. I require the assistance; my family requires the assistance," and full speed ahead--that sort of thing. Yet I can see that that perception certainly might be real among some of them.

What about the whole area of tax-back, tax credits, and that sort of thing? Do you feel that enough work has been done in this area by the two levels of government as to how we might improve the lot and, somewhat higher up the income scale, offer further encouragement and incentive to people to save for their own retirement through the use of selective tax policy?

I have said more than once that I really think some of the steps the federal government took in the fall worked absolutely counter-productively to the espoused policy of the federal Minister of National Health and Welfare. On the one hand she has identified the major problem in this country as pensions and people's retirement incomes, and on the other hand Mr. MacEachen has removed several incentives for people to save for their own retirement.

So tell me, is there a body of material on this area of tax

credits of which the committee might be unaware? Is there any work done on it that we should look at?

Mr. Stouffer: Some years ago we had the negative income tax work undertaken with the provinces and the federal government. As a policy it was not accepted at that time, probably for the disincentive reasons I've mentioned already. Of course, they extended not just to retirement income but also to pre-retirement income. I suppose we could dig that up again. It's available in the library.

Mr. Gillies: It wasn't received with open arms at the time.

Mr. Stouffer: No.

Mr. Ilkiw: There is a fundamental problem. First, you should be aware that we do have a negative income tax system for the aged, and it's called the guaranteed income supplement. It has a tax-back rate of 50 per cent; so if you qualify for the GIS maximum, for every dollar you receive from other sources of income they take 50 per cent of your GIS away.

Mr. Gillies: Actually, I'm thinking more of pre-retirement.

Mr. Ilkiw: Pre-retirement?

Mr. Gillies: Yes. I'm still thinking in the direction of what we might be able to bring in that does encourage people to save for that period of time.

Mr. Ilkiw: I think in the income tax stats, for example, the clearest example of voluntary saving for retirement is the RRSP program. I think it is pretty obvious that the tax advantages accrue to the high-income earners because of the deductibility. I myself do not think the little wrinkle about not allowing interest paid on moneys borrowed for RRSPs is much of a disincentive in light of the actual dollars you get back if you are at a high marginal tax rate. I think that is the actual pivotal point.

You could restructure that and rather than having it deductible you could give an income earning tax credit. You could give a tax credit to people at the low income level who contribute to an RRSP and then reduce the tax credit as income rises. Then what you have there is an incentive for the low-income earners. Part of their money or RRSP is being financed by the government the way it is at the higher marginal rates. As you go up the higher scale, the tax credit starts to decline.

Because of the fact that these individuals have higher disposable incomes, they are accruing a variety of assets, the incentive to accrue isn't necessarily as great. Indeed, just because they have higher disposable income, they are going to have higher assets when they retire. So in some sense you could argue that the incentive to save is misplaced if you want to follow your particular avenue.

Mr. Stouffer: What John is also saying could raise another problem we have to consider, in that if you do give an incentive to save to the low income groups it amounts to a tax expenditure. Then you say, "Why are we spending it here for the people who are the low-income workers, when we could be spending it in benefits to the people who may need it in retirement now?" Trades start to come up. You essentially end up funding it some place.

Mr. Mackenzie: I will ask you the same question I have asked a number of times. What is the possibility of getting accurate figures on what currently a person is actually likely to receive on his various pension schemes?

Mr. Stouffer: The best material I have is in the royal commission for the existing system and I guess in the Lazar report as well. It has the number of years of pensionable service that you can, on average, accrue over your working lifetime and under the present rules. How that translates into dollars, I cannot really tell you.

Mr. Mackenzie: I think we had a figure that it would probably cost $20,000 or $25,000 to try to pull it off.

Mr. Bentley: That was the figure that was estimated to me, yes.

Mr. Stouffer: Our study will be public when it is made public. Again, it will be comparative--where we are at today compared with where we will be tomorrow.

Mr. Mackenzie: That is a very important component over and above this target we are talking about in terms of what the adequacy is and I suspect it is damned low.

Mr. Stouffer: It certainly is under the present arrangements, but I do not think that needs to be.

Mr. Ilkiw: I think just as an observation, if you are pursuing these statistics, you have to put each statistic into some particular framework.

Mr. Mackenzie: It may improve five, 10, 15, 20 years down the road.

Mr. Ilkiw: A number of efforts have been undertaken by the Lazar committee and by the royal commission to simulate what would happen under different vesting rules and they assume different mobility rates. That is termination rates from plans. They run through the system and find out exactly how many years the pension of the service, on average, would be accrued. But you have to look at the assumptions associated with each one of these simulations. It gives you a feel for the dynamic qualities of any particular reform that you consider.

Also, the Lazar report, which was the path breaking, I guess, brought in additional assumptions about unemployment, the extent of coverage, the extent of part-time workers. They generated some

figures. If you look at the Lazar report or actual statistics generated today, and the report and the figures that come out of the royal commission, they are all going to give you a different perspective. You have to know what assumptions and what historical events underlie them, in order to actually put the right amount of weight on each of the figures.

11:30 a.m.

Mr. Brandt: Could I get back to the RRSP for a moment and a comment you made in response to Mr. Gillies' questions? I think what you were saying is that the interest deductibility was not a major factor, if I read you correctly, and I guess primarily you came to that conclusion because the RRSPs are mainly attractive to those people who have disposable income and can afford to purchase them. Do we have any kind of a handle on what percentage, in a global sense, of RRSPs are purchased by people who are required to borrow in order to take advantange of that particular plan?

I only ask that question because there has been a great deal of newspaper comment about how devastating this is going to be to RRSPs. I really have not come to grips with it myself, as to whether or not it is going to be critical or whether it is not going to be serious. Our committee did talk about it at some length, to the extent that we were thinking about discussing with the federal government the possibility of reimplementation of that particular interest deductibility factor in order to get that back into the system again.

Mr. Ilkiw: I do not have any numbers and I do not know of any statistics, offhand, that will allow that, except going to the individual banks. My observation is a purely personal observation from an economist's perspective.

Mr. Stouffer: I saw some statistics just after the budget was brought down that would indicate that roughly 70 per cent of the persons purchasing RRSPs borrowed for that purpose. What was not clear was whether they had to borrow for that purpose, or whether they borrowed because of the interest deduction which gave them a bit of leverage. I personally am one of those who does that. That was one factor.

The concern then would be, if you put that on a very superficial plane, perhaps the cash flow to RRSPs would go down 70 per cent because you did not have the facility to borrow through the interest deductibility. That is not really the case because you can still borrow for an RRSP.

What becomes attractive is the fact of, say, putting in $4,000 and your 50 per cent marginal tax rate. The tax advantage of putting in $4,000 and getting $2,000 back in a few weeks--if you are lucky--generates a lot more interest than the fact that the interest you would pay on the money to borrow that would be tax deductible. I think that was clearly a tax dodge that was being used by a great many people to play both ends of the game. I really do not believe it is going to have a very significant impact on the moneys flowing to RRSPs this year.

Mr. Brandt: You would not encourage this committee to take a strong stand with the federal government opposite that particular change?

Mr. Stouffer: It is not really for me to tell the committee what to do. But my personal view would be that--

Mr. Brandt: You are answering questions much like Wells does.

Mr. Chairman: Thoughtfully, and with a great deal of wisdom.

Mr. Bentley: With a lot of "buts."

Mr. Brandt: Some of us are concerned about that segment--I do not know whether it is covered in your statistical report here--but as an example, in the retail sector there is a very low level of coverage.

Mr. Stouffer: Fifteen per cent.

Mr. Brandt: That was the second lowest group that you reported on; the agricultural community being the lowest and then the retail sector.

Mr. Riddell: Agriculture always gets the short shrift.

Mr. Brandt: We'd better look after us farmers, Jack.

Mr. Riddell: You bet. We are going to do our best.

Mr. Brandt: The point I wanted to raise is how effective the loan problem is as it relates to RRSPs for that particular segment of the market. Does your 15 per cent relate to owners as well as employees, or is that only employees of those particular establishments?

Mr. Stouffer: Owners are not included. My guess would be--and I don't have any statistical evidence on this--that the owners of those establishments would also have a relatively low level of coverage. They wouldn't be on pension plans because it is very unlikely that they would be in a pension plan. If the statistics were based on 1978 or 1977, they would not have been able to have a pension plan.

Mr. Brandt: So they lean very heavily on RRSPs. If it is a given fact that a goodly number, according to the figures that we got from the business community that have come before us, are in many instances marginal, they are relatively young businesses, relatively small, and they do not have pension plans. You take all of that and there is a vast number of people out there who are owners who are also not covered by pension plans and who require some incentive. We were trying to address that group as well, and trying to come to grips with those people who are not covered adequately at the moment.

I just wondered how much of a problem it would cause by

removing that interest deductibility. You have indicated to me that it is not going to cause a problem, but if they have a marginal business and do not really have a very substantial profit, when they get to the end of the year and they are going to attempt in some way to get into a pension plan for themselves through an RRSP, then in many instances they may be required to borrow; I don't know. The figure of 70 per cent is pretty high, but how many of those are in need is questionable, I agree with that.

Mr. Stouffer: They can still borrow. They just cannot deduct the interest. It is a funny thing. I would suspect that not being able to deduct the interest will be a positive in that the people will pay off those loans much more rapidly.

Mr. Gillies: I have a supplementary to that, and perhaps Mr. Riddell can help me. I would have to think an awful lot of farmers have RRSPs. Is that right?

Mr. Riddell: They did have when they were able to use that interest deductibility, but I don't know.

Mr. Stouffer: They have to have earnings before they can have an RRSP.

Mr. Gillies: That is what I am wondering. With the state of the agricultural economy these days, I happen to think that little loophole closing in the fall actually hurt a lot of farmers because they are not generating real income.

Mr. Stouffer: That's right. The RRSP for a low-income farmer has no attraction at all. His attraction for retirement is the fact that he has a farm. He will sell that farm at some point and that will provide his income for his retirement years.

Mr. Gillies: Hopefully he will sell the farm. Even that is questionable these days. I just brought that up because Andy was talking about small business, and the participation for agriculturers is much lower.

Mr. Brandt: It is almost nonexistent. It is less than one per cent.

Mr. Chairman: Mr. McClellan, you had a question.

Mr. McClellan: Actually, Mr. Mackenzie solved the major problem I was having with some of the statistical stuff. I have a second question about the specific initiatives that were outlined on page 20.

Mr. Stouffer: We did not get into that. Did you want to do that? I can go through it for you.

Mr. McClellan: I am interested in that, yes.

Mr. Stouffer: We have got through the policy options, I guess, and we just came down to specific initiatives. These things were just thrown out as being representative, I guess.

Mr. McClellan: Before you do that maybe you could finish off the policy option section in terms of your anticipation of the kind of time frame we are talking about for an assessment of the adequacy of the kinds of reforms that there seems to be a consensus around, the kinds of reforms that are outlined in our first report, which the Treasurer has indicated--

Mr. Stouffer: Are you talking about the statement where he says that the three-step approach after we have been able to assess--

Mr. McClellan: Yes.

Mr. Stouffer: We are not talking 47 years, I don't think.

Mr. McClellan: What are we talking?

Mr. Stouffer: Probably three or four, something like that. I think you can gain a pretty good feeling, after the thing has been operating for rather a short period of time, how effective it is going to be. What will happen is that the plans will make their changes; there will be reactions; there will be the mutual life approach where benefits will be adjusted formulas are adjusted to keep the same dollars flowing in.

I can see a progression of improvements. Five-year vesting is not the end position, I am sure. I can see one-year vesting perhaps four or five years after five-year vesting has come in.

11:40 a.m.

Mr. Mackenzie: Three years is what we recommended.

Mr. Stouffer: Whatever.

But the point is that there will be patterns developing by which you can predict how effective the improvements that we have made to the private system have been. You will also get a pretty good handle on whether or not the coverage goes down and plans are terminated because of the improvements. You will know pretty quickly about how wide an impact that will have. It could very well be that the coverage would improve if the plans are more acceptable and desirable to employees.

Mr. Mackenzie: I do not suppose you are making policy, but are you saying in those comments, in the second paragraph on policy options, the position of the Treasury is that the improvements we have already recommended and any further minor improvements that we may make are as far as we want to go and the major decisions, such as CPP, PURS and OAS, are something we should be looking at in three or five years?

Mr. Stouffer: The official position the Treasurer has taken is essentially that we should make the improvements to private employment plans to make them more effective and then take a look at the CPP. So if that is what you are asking, then that is the position.

Mr. Mackenzie: In other words, we may be wasting our time here altogether if that is the line that is going to come down.

Mr. Brandt: You might be wasting your time, but some of us think it is a very worthwhile exercise.

The only concern I have about what you, Mr. Stouffer, are suggesting is the affordability of it. I am in favour of everything that will help the individual who is not being covered or who has difficulty, but at the same time I want to make absolutely certain that we can afford what we are going to do; that's all. It is very simple.

Mr. Mackenzie: The light is late coming on but, all of a sudden, I think I know your position.

Mr. Brandt: Well, I don't think you do. Maybe some of us don't know it yet. We are waiting for the final report to put it together.

Mr. Chairman: I guess we will all have an opportunity to read Mr. Brandt's minority report.

Mr. Brandt: There was one last time; there may be one again.

Mr. Gillies: The last one was enjoyable.

Mr. McClellan: I had interrupted Mr. Stouffer. He was going to deal with the specific initiatives.

Mr. Stouffer: Those are just some representative things. If you are to develop policies that would improve coverage in target areas--for example, among small business--then you might want to bring in a plan like the Canadian Life and Health Insurance Association proposed, a simplified, streamlined pension plan that had everything pre-cleared, had got around all the red-tape problems and the administrative problems, that sort of thing. That would be one initiative that might be a suitable way to help improve coverage among those people.

Mr. McClellan: This is again to cover the group that I think you had identified, which is middle- and high-income earners working for small employers.

Mr. Stouffer: Yes. Then for small employers there could be some kind of tax incentive.

Mr. McClellan: But presumably not for average- and low-income employees working for small employers.

Mr. Stouffer: There might be spillover effects there, but no, we do not think they should be for very low-income workers.

When we talked about those four kinds of assets--remember, there was a lot of capital assets and property assets--the property assets could be turned into income through first mortgages; the extensive use of joint-survivor options in pension plans in place

would be significant. We have already dealt with that issue. Allowing part-time workers to be members of pension plans would be a desirable thing. We have indicated here that it would be a voluntary thing. They could join if they wanted to, but you might want to go one step further and force them in.

Mr. Brandt: Is there not a problem with that last one? Most part-time workers look at their employment as a means of supplemental income and do not look at it as a period of time when they are putting away for their retirement, or whatever, until they get on into later years when it becomes a somewhat more critical issue. By that time, many of their earning years are behind them and it is a little late and it causes some difficulty. You would think some kind of a mandatory requirement for the permament part-timer, those who are in the work force on a regular basis, would be a move in the right direction.

What would your opinion be on that? I think a dose of bad medicine at an early stage might be of some value to some of those people because they will not voluntarily get into a plan?

Mr. Stouffer: There are several ways of approaching that one. First, I believe they should have the right to belong if they want to. You might say they have to belong once they reach the age of 35. Alternatively, you could say if they have a durable relationship with their employer--durable being defined as work for two years half-time or one-third-time--they would automatically go on.

I think you have to be a little careful as to forcing them in in certain periods in their working lifetime. But I cannot see too much of a problem after some predetermined age like age 35. Once you get to that age, if you are part time, you must be--

Mr. Haggerty: While much discussion is going on, Mr. Chairman, are we actually addressing the problem that is before us? I am just relating to the number of persons. Let us look at the number of persons who come on to the educational system. We built schools and now we are closing them down and phasing them out because there is not a sufficient number of students, following the birth rate decline.

Mr. McClellan: Sorry, could I have an answer to my question?

Mr. Haggerty: As much as we may be mandating new pension schemes, there would be none that is going to become mature in the sense of being sufficient income for a person to retire on.

Mr. Chairman: Mr. Haggerty, in fairness to Mr. McClellan, he did have the floor and he was--

Mr. McClellan: I was asking Mr. Stouffer a question.

Mr. Haggerty: I thought he was a little bit slow in responding.

Mr. Chairman: If you would not mind deferring to Mr. McClellan--

Mr. McClellan: I would certainly like to ask the committee to give Mr. Stouffer the courtesy of going through the final point in his brief--the specific initiatives--and an explanation of each of the points.

Mr. Stouffer: I think I covered them all.

Mr. Chairman: Yes, you did.

Mr. Haggerty: That is right.

Mr. McClellan: On reverse mortgages?

Mr. Stouffer: Yes, I mentioned that.

Mr. Riddell: I would not mind your elaborating on that because I am not sure what you mean by reverse mortgages.

Mr. Chairman: Like your tax bill, it keeps getting bigger.

Mr. Haggerty: That is the reason I was responding to the mandatory coverage.

Mr. Chairman: Mr. Stouffer did go over these items. Are there some specific ones that--

Mr. McClellan: I am sorry, I must have missed that point, but I do not understand the reverse mortages proposal.

Mr. Stouffer: If you recall the earlier part of our paper, it said there were four or five different ways of saving for retirement and one of them was the accumulation of property--houses, cottages, whatever. It could be possible to turn that capital asset into a stream of income through the reverse mortgage arrangement. The person may still live in his house, but the mortgage payments would be made.

Mr. McClellan: When would you take the valuation? At the beginning of the payment period or at the end? Maybe you could explain in a little more detail how that would work.

Mr. Stouffer: One option, of course, is to sell your house--this is not a reverse mortgage--and take a mortgage back and take payments on it. A reverse mortgage is something like that, except that after you sell the house you live in it for a specified period of time and payments are made to you. When you get to a certain level, somebody else takes over the house.

11:50 a.m.

Mr. McClellan: All right, but normally mortgages are renegotiated--let's say after five years--in order to take into account changes in value and interest rates et cetera. What kind of arrangements are built into reverse mortgages, or is there anything like this? I assume it is a one-shot deal. You make the arrangement and then you have the annuity for as long as you live.

Mr. Stouffer: That is the way we think of it, yes, but

the marketplace determines a lot of these things. Maybe if that is not an acceptable way of doing it, something else would be worked out.

Mr. Van Horne: Is this actually happening now?

An hon. member: Not that I am aware of.

Mr. Ilkiw: The Economic Council of Canada did a study as a background for (inaudible) and reverse mortgages are active in England and in Germany. If I remember the basic nature, they would be renegotiable. If the asset appreciated over the lifetime of the retiree, the difference between the price and the actual market value when the individual dies goes to the estate. I believe also that they have different provisions written in that the children, if they so desire, would have first claims on purchasing the house from the original purchaser.

There are all sorts of different ways of doing it. But if you look over the different approaches to retirement income and you look at the plight of elderly women today, a lot of them retired before the retirement income systems were put in place. They retired before employment pension plans matured or started to become popular and when one of the principal sources of retirement income was actually living in your own house. That was their principal asset; indeed, that was their annuity. I guess in the absence of government programs such as OAS and GIS these items would have been sold or perhaps the family would have moved in and there would have been transfers between the family members.

But now, paradoxically, we set up systems that allow them to stay in their homes and we give them a stream of income, so they have this asset locked up that traditionally would have been liquidated and provided for their retirement.

Mr. Van Horne: Did the economic council talk about this with the trust companies in the money market here in North America?

Mr. Ilkiw: I am just going from memory. I can look at the study and find out the actual specifics. I do not imagine it is very popular in Canada just by the response I see here.

Mr. Riddell: Is it a speculative market as far as the purchaser is concerned? Why would someone purchase a home or a piece of property with the idea that maybe 10 or 12 years down the road he might be making some kind of a deal with the children of the person who owns the house that they are going to be able to buy that back?

Mr. Ilkiw: Well, I imagine that if the purchaser is in it, he must be in it for some reason--to be socially responsible. I imagine there is a profit in it the same way there is a profit in actually being a mortgage broker. You serve both sides of the market.

Mr. Chairman: Are there any other questions?

Mr. Riddell: We are becoming a gambling society. We have

all the lotteries in the world, everybody is gambling on an easy way of making money.

Mr. McClellan: I have a question that has to do with Mr. Stouffer's comment about the credibility of--I don't want to put words in your mouth, but I think you were questioning the credibility of criticism of the adequacy of Gains.

Mr. Stouffer: I was talking about the perception of Gains as a stigma of welfare. When you talk about a program, I do not see any way around the stigma part of it.

Mr. McClellan: I understood what you were saying about that. I thought you had made some comments about the adequacy of Gains rates.

Mr. Stouffer: No, I hadn't. If that slipped out, I had not intended to say that. I am making the assumption that Gains is adequate or it should be.

Mr. McClellan: One or the other. I guess it is the majority of the committee's view that the rates for singles certainly are not adequate. My problem is that I don't know whether you can ever get means-tested programs that are designed for a minority of the population who can't take advantage of market options. When you design programs like that with the market for the majority and the means-tested programs for not a small minority, but a relatively large minority, I don't know whether you can ever get adequacy built into the means-tested programs.

Politically it becomes easy to ignore the minority group, and I see that reflected in all kinds of means-tested programs that are consistently set at levels below any objective measurements we have of adequacy, below the Statistics Canada poverty line, low-income cut-off line, or whatever measure you want to use. Programs are always set below it. The only exception in all of the range of programs, I guess, is the Gains rate for married couples which, in the last year or two, has managed to creep up above the StatsCan low-income cut-off line. Whether it will maintain that position is another question. It is a kind of melancholy forecast I have--

Mr. Stouffer: I think too you have to remember that there are a lot of in-kind programs available now. In some of those comparisons of the singles, we add in the free OHIP and measure for the free drugs and all that sort of thing. It brings up the comparability, but what is left out is the income support for rental accommodation and that sort of thing.

Mr. McClellan: Precisely. If you are lucky enough to be in subsidized housing and have OAS, GIS and Gains plus the other benefits, then you are relatively well off, but if you are trying to live in a market housing situation, on whatever it is, $5,800 a year, God help you.

Mr. Chairman: Are there any other questions? If not, thank you very much, gentlemen. We appreciate your view in the paper you were good enough to provide to the committee and it certainly will be of help to us, probably of more help to some than

others. Thank you again.

Mr. Williams: I'm sorry, Mr. Chairman, I have just one very quick question to Mr. Stouffer. In table two, Mr. Stouffer, the number of plans were actually reduced in 1976 and 1978. Was that because, as I think you said earlier, there were fewer plans but a larger number of participants?

Mr. Stouffer: The number of participants grew. As to why the number of plans went down, Wells Bentley probably can answer that, but I suspect it largely has to do with the amalgamation of companies--

Mr. Bentley: A very large number of them went out of existence in the late 1960s and early 1970s because--I have lost a tooth, so if I have to speak with my tongue between my front teeth, I am sorry--the old top-hat arrangements were counted as plans. So they gave us a high number of plans, the 16,000 that we had, but approximately 1,000 to 1,200 of those plans disappeared. They were principally shareholder, what we called at that time top-hat, plans, because of the change in the income tax. It did not cause a great number of people to become uncovered because most of those plans were for one, two or three people.

We have seen a drop-off in plans. We have seen an increase in coverage. I think principally because people have moved into the larger corporations we have found the increase in the number of employees within government, within the larger corporations and so on, and this subsequently led to the increase in coverage. This is the only thing that I can really specifically--

Mr. Williams: So it is largely a rearrangement of corporate structure within the private sector of the economy.

Mr. Bentley: That is right.

Mr. Chairman: Thank you very much, Mr. Bentley.

The committee recessed at 12 noon.